

An enlightened source of finance?

Debbie Johns discusses how councils can make use of limited funds that are available for street lighting by taking the prudential borrowing route

Street lighting is drastically under-resourced. And the Comprehensive Spending Review 2007 settlement of just one per cent overall, coupled with greater demands placed by efficiency savings targets, have left this and other non-statutory services struggling to find innovative ways of delivering ever improving results for ever less cash.

Demonstrating the case for better investment in lighting can, however, be easy, as its contribution to wider community aspirations is obvious.

High quality public lighting has an impact on community safety in reducing crime and fear of crime. A Home Office study found that street lighting improvements could cut crime by 20%. Well-designed street lighting can enhance the aesthetic and amenity value of public places. And, if procured sustainably, it can both address environmental goals and save funds through energy efficiency. This is particularly important as energy costs are on the increase. Association for Public Service Excellence (APSE) performance networks data has shown that total energy cost per street lamp/illuminated sign maintained has increased from £17.57 in 2004/05 to £26.77 in 2006/07.

The Institution of Lighting Engineers has been calling attention to the need to replace residential lighting stock erected during the post-war housing boom for a number of years and recommends an extensive programme of planned replacement. Steel lighting columns perforated by corrosion, especially in the base area, as well as spalling of the concrete around the shaft/bracket joint of a concrete lighting column have become a common sight. From a health and safety perspective, column collapse can have fatal results. Electrical failure can also leave streets unlit, prompting complaints from the public.

The 'invest to save' argument is therefore very clear. But current options for raising funds to improve public lighting are limited. Local authorities have accessed money through means including; grants or contributions, capital receipts such as Local Transport Plans, revenue, the Private Finance Initiative (PFI) or Prudential Borrowing (PB).

PFI has become a major funding source to major lighting infrastructure replacement for many local authorities and Government funds have been directed towards this route. In July 2006, £700 million PFI funding was made available for local authority street lighting. DfT figures show that as at October 2007, the DfT had 31 endorsed PFI projects for street lighting and highways maintenance of which 22 were operational. This means a council effectively handing over its lighting installation to a contractor who, under the terms of a contract, replaces the installation within a given timescale; ensuring the replacement installation, and its ongoing maintenance, complies with an output specification within the contract.

While take-up of PFI has become widespread, a number of authorities have resisted PFI for a variety of reasons. These include:

PFI contracts are typically 25 years. During such a long period there is no certainty that the economic conditions that suited PFI provision will continue in the intervening period.

The output specification in a PFI contract is also set for the life of the contract, and no changes can be made without the agreement of the contractor, which usually entails extra funding. This means that new technical standards, advances in technology or political changes cannot be accommodated flexibly.

Another consideration is that, as the lighting is usually installed early into the contract due to the deterioration of existing lighting, then the residual life for this can be shorter than the length of the contract. This may leave the authority with little choice than to embark upon another PFI. In addition, the length of lead-in time for a PFI is typically much longer than other forms of funding.

Some authorities may be too small or have too small a number of deteriorated lighting columns to consider PFI. Another consideration is that there could be a substantial financial and reputational risk to an authority if its PFI provider becomes insolvent during the contract period, potentially leaving the authority with no lighting contractor and a deteriorated installation.

Finally, the cost of private sector borrowing is relatively high compared to that of public sector borrowing. For example, in 2002, Audit Scotland calculated these costs as adding £0.2 to £0.3m each year for every £10 million invested. The public sector comparatively can access low interest rates because the lending is secure.

The potential move to international accounting standards from 2008 would leave most PFI assets on the public sector balance sheet. This may result in PFI credits becoming less available.

APSE has 260 members from councils delivering frontline services across the UK, including highways and lighting. We are therefore well-placed to consider how different options for raising funds contribute to service performance, sustainability and meeting local authorities' wider strategic goals. We believe that, given the limitations identified in using PFI and absence of a wide choice of alternatives, Prudential Borrowing (PB) is a more viable means of making the best use of limited resources that are available.

PB became an option for local authorities to fund infrastructure projects in 2004, when the Government permitted them to borrow money for capital expenditure using revenue from their own sources, provided that such borrowing is sustainable. This is regulated by the Chartered Institute of Public Finance and Accountancy's Prudential Code. The effect of the Prudential Code is to regulate all such borrowing by 'affordability' and 'proper practice'. In accordance with the Code, each authority wishing to make use of Prudential Borrowing has to set estimates and limits on its own borrowing to demonstrate both prudence and sustainability. The cost of such borrowing is roughly 10% of the principal advanced. This means, for example, £100,000 for every £1m borrowed, made up roughly of 6% interest and 4% repayment of the principal.

The main difference between borrowing using PFI and using prudential finance is that the authority keeps control of the method of procurement and delivery and also ownership of the lighting installation. This means that the replacement service can be procured by traditional works contract. This can be by a single authority, in partnership with another authority, entering a public private partnership or using in-house provision, or any combination of these to the individual circumstances. From an engineering perspective, the authority also retains ownership of the equipment specification, which can be

changed during the length of contract, where there are alterations in standards or advances in technology.

A benefit of PB is that, because it requires lighting to compete on a corporate level with other financial priorities, it means that, if chosen, this not only signals political commitment, it also enables the benefits of better lighting, outlined previously, to be linked holistically with other objectives across the council. This is demonstrated in the case study on Dudley, which follows.

APSE believes that – with limited amounts of funding available for street lighting and limited options for raising finance despite the benefits and savings that result from greater investment – PB is a route that should be considered by more councils.

CASE STUDY BOX: DUDLEY

Dudley MBC chose to use the prudential finance option for a major capital replacement project to address the problem of deterioration of its lighting infrastructure.

Mel Harwood, street lighting team manager at Dudley MBC, stresses the importance of 'political will' in taking this route and using it successfully. His council used the £1.4m project as an opportunity to specify lighting equipment that is more environmentally friendly, requires less maintenance and causes minimal light pollution.

Mr Harwood thinks PB offers a 'more long term approach' than PFI because control over street lighting remains with the authority and it is not bound by a contract with inflexible output specifications. His department worked with other parts of the council to ensure the investment in better lighting was linked in to improvements in community safety, housing and other priority projects in areas highlighted for special measures. He says: 'Because prudential spend comes from within the council's capital pot, it links in with all other capital spend to address wider corporate priorities.'

The funds raised through prudential finance in Dudley have enabled 2,283 replacements and column refurbishment works to go ahead in the areas of Sedgley, Brockmoor and Pensnett. Work commenced last year and was finished this spring. Service and efficiency improvements have been noted but as yet are unable to be quantified; it is estimated however that the repairs required to the new installation, based on experience gained since completion, may have declined in the order of 1200 jobs per year - a decrease of over 97%.

The authority is now hoping to roll out prudential borrowing as a means of improving its lighting stock across the whole of Dudley.

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