

MANCHESTER CITY COUNCIL
REPORT FOR INFORMATION

COMMITTEE: **RESOURCE AND GOVERNANCE OVERVIEW AND SCRUTINY COMMITTEE**

DATE: **19 JULY 2007**

SUBJECT: **PFI STREET LIGHTING CONTRACT**

REPORT OF: **HEAD OF ENGINEERING SERVICES**

PURPOSE OF REPORT :

To provide members with information about the Street Lighting PFI Project Agreement and the way it is being monitored, and to discuss value for money, responses to local issues, flexibility in the service, and risk.

RECOMMENDATIONS :

That this report be noted.

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BACKGROUND DOCUMENTS :

Street Lighting PFI Project Agreement (PA) and Deed of Variation.

WARDS AFFECTED : All 32 Wards

IMPLICATIONS FOR :

<u>Anti poverty</u>	<u>Equal Opportunities</u>	<u>Environment</u>	<u>Employment</u>
No	No	Yes	Yes

ATTACHED DOCUMENTS :

Appendix A	Further details of the Project Agreement
Appendix B	Estimated PFI '25 year' Income and Expenditure
Appendix C	Progress to date in removing columns under the IARP
Appendix D	IARP Programme to Completion (completing June 2008)
Appendix E	Number of lighting faults reported each year.
Appendix F	Deductions made from Unitary Charge – each 6 months for 3 yrs
Appendix G	Monies expended by the Authority on street lighting services

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1 Introduction

The Council is in contract with a Special Purpose Company (“**SPC**”) called Amey Highways Lighting (Manchester) Limited (“**The Service Provider**”). This SPC is 50% owned by the Amey Group and 50% owned by John Laing Infrastructure.

The Project Agreement (**PA**) relates to the provision and maintenance of public lighting in the City of Manchester from July 2004 to June 2029 – a 25 year PFI arrangement spanning 26 financial reporting years to 2029/2030.

The SPC has subcontracted its construction and operational obligations to Amey Infrastructure Services Limited (“**Amey**”). Amey Infrastructure Services Limited is wholly owned by Amey plc. When you see the staff and vans of Amey around the city, it is AISL that they belong to.

For simplicity this report uses ‘The **Authority**’ for Manchester City Council and more specifically the Street Lighting section of Technical Services, the ‘**Service Provider**’ to mean the SPC, and ‘**Amey**’ to mean the SPC’s sub-contractor – Amey Infrastructure Services Limited.

The PA secures three major aspects of street lighting service provision:- Firstly, the removal of outdated and/or end of life stock which generally does not comply with current standards - the Initial Apparatus Renewal Programme – or IARP

Secondly, the operation and maintenance of the street lighting service and all 61,000 (approx) items of equipment, up to 30 June 2029. This is called the AARP or OPEX works – and is the day-to-day maintenance of all the apparatus, its checking, its cleaning, and its replacement of components such as lamps and lanterns.

Thirdly, the reactive maintenance dealing with faults noted from night inspections and reports from the public and others.

Further details of the PA are included in **Appendix A** to this report.

Considerable work was carried out in advance of the PFI Agreement to establish that value for money was going to be achieved. A measure of the success of what was being proposed was that Manchester obtained the PFI Credits necessary for the project to proceed. Not all Authorities have been successful. The Agreement was also scrutinised by 4ps and the DFT, who, together with the Authority’s Advisers (PricewaterhouseCoopers and Adleshaw Goddard) recommended that we all proceed with the contract. This report is written on the assumption that Value for Money was established in the setting up of the PA, and what now has to be demonstrated is that the Authority is getting the Service Level required of that PA.

This report provides an overview of the above three areas of service, dis-

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cusses the flexibility of the PA with reference to what services are not included in the Contract, and then addresses areas of risk.

2 The Services

2.1 Service prior to the PFI.

Prior to the PFI over 70% of the lighting columns on the highway were in a dilapidated state presenting both electrical and structural potential risks to the public. In addition the equipment was not making efficient use of electrical energy in order to perform its functions. Furthermore the lighting systems were not compliant with current British or European standards. In the 1990s capital spending on lighting column replacements had been averaging around £260,000 a year (which at that time was sufficient to replace about 300 columns), however, between 2000 and 2003, capital funding reduced to a level that barely covered emergency replacements (indeed many emergency replacements were necessarily funded from the street lighting maintenance budget). Even at a rate of 300 replacements a year it would have taken almost 30 years to replace those columns which were in need of urgent remedial work or replacement. In summary, the stock was old, much of it was failing regularly causing a high amount of reactive repairs, and there was no money for new investment. The Authority's monies were not getting value for money in any form.

The lighting that is being procured through the PFI is safe, energy efficient, requires less maintenance and is vandal resistant. The lighting is optically controlled to reduce light pollution and the light emitted is of an improved quality which enables users to distinguish colours and improves facial recognition. It fails less often and generally appeals to the public and road users.

2.2 The Initial Apparatus Renewal Programme – the 'IARP'

The very visible first stage of the 25 year PFI agreement is the IARP - the removal of outdated and/or end of life stock that generally does not comply with current standards. At the end of the first 5 years (or earlier) the **IARP** will ensure that the majority of the Authority's street lighting (around 70%) will be compliant with current standards, and virtually all the stock will have reached that standard at the end of the 25 year period.

The value for money aspect of the PFI was able to be secured by joint agreement of exactly what the Authority expected the Service Provider to provide in the way of services and specifications. This means that requirements were clearly set out in the PA, and it is

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these requirements for which the Unitary Charge pays.

There is total flexibility within the PA for any service or specification to be changed by mutual agreement – there is no flexibility whatsoever to change any service or specification without an agreement of what financial changes this will require, and any additional monies requires the identification and provision of appropriate additional funding.

- 2.3 The agreement was signed in March 2004 and service commencement was on 1 July 2004 following the 3-month mobilisation period. Amey has, at end June 2007, removed 26,434 columns, which equates to being 2.5 months behind the target IARP. The target IARP completes the replacement in 51 months (September 2008), which is 9 months ahead of the '5 year' IARP period. A graph showing the progress to date in removing columns is provided at **Appendix C** of this report.

Amey has, at 2nd July 2007 issued its latest programme showing completion of the IARP in June 2008, which would be 3 months ahead of the 51 months.

Works in Brooklands, Old Moat, Rusholme, and Higher Blackley Wards are currently in hand, with works in Bradford and Withington due to commence shortly. This will then leave just 7 of the 32 Wards to be commenced in the next 8 months. The most difficult Ward in which to manage and carry out the renewal works is the City Centre, and the programme here is continuous except for the winter months.

The programme of replacement of lighting works in the remaining Wards is included in **Appendix D** to this report.

- 2.4 With regard to the replacement of Street Lighting columns, the PA is based on the removal of an estimated 41,698 street lighting columns in the first 5 years of the contract (The IARP), and the replacement of these with an estimated 39,877 new columns, lanterns and lamps. This 0.956 reduction factor means on average 24 new columns for 25 existing columns, and means that replacement is unlikely to be one for one in terms of locations on the street. The IARP represents some 73% of the street lighting in the Wards at the start of the contract. The remaining 27%, or 14,800 lighting columns (approx), are 'deemed to comply', assessed as being in good condition and utilising relatively modern lamps and lanterns. The Authority has chosen therefore not to replace these columns during the IARP since they are in a safe state and fit for purpose at this time. Removal of this equipment under the IARP would not represent value for money.

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2.5 The Annual Apparatus Renewal Programme – the ‘AARP’ or ‘OPEX’

The backbone of the Street Lighting Service is the operation and maintenance of all 61,000 (approx) items of equipment, up to 30 June 2029.

During the period of the contract, the Service Provider is required to maintain a comprehensive Asset Management System (AMS), carry out programmed maintenance, survey for structural integrity, scout all lighting sites at least once every 14 days, and to replace all columns, lit traffic signs, lit bollards, zebra beacons etcetera, identified as requiring life cycle replacement.

Clean and bulk lamp change.

The street lighting policy in Manchester prior to the PFI had been to allow the lamps to burn to extinction. This was not only uneconomic but also resulted in a poor standard of lighting towards the end of the life of the lamp, (lamps dim with age). Money was being wasted by multiple visits to the same streets to replace individual lamps. In effect by allowing lamps to burn to extinction, the energy consumption remained constant but the lighting conditions were continuously deteriorating. This has been changed in the PFI contract and the specification requires the contractor to change all lamps on a rolling programme of 2, 3, or 4 years, depending on the type and hence design life of the lamp thereby maintaining the lighting conditions within the limits laid down in European Standards.

2.6 Reactive maintenance – the rectification of faults within the 32 Wards.

The identification of street lighting faults, before the PFI contract was in place, relied heavily on public reporting. Night inspections to supplement the public calls, limited by funds, were undertaken at approximately six weekly intervals. The PFI contract addresses this by requiring that all lighting points in the City are to be inspected every 14 days and any found to be out of light are reported and repaired.

Value for money is demonstrated in this aspect in a number of ways. There are performance indicators that measure the number of days it takes to repair a fault and if that fault is related to normal operations or if it has to be repaired by the Distribution Network Operator (Electricity Company - United Utilities).

There is also a count of the number of faults – these are reducing as the improvements to the stock are made. (See graph of number of faults per year – **at Appendix E**). Clearly money is well spent where the numbers of lights not working in the city are continuing to reduce.

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In parallel to the 'OPEX' services, the Service Provider also has to deal with any other repair/replacements as may be necessary including emergencies arising out of vehicular damage and/or vandalism (see table below for the performance standards required on this reactive service).

	Street Lighting PFI - SERVICE AREA	Prescribed period of rectification
A	Non-Emergency Faults involving the Replacement of components of Apparatus.	5 Working Days.
B	Non-Emergency Fault on an MCC Cable Network.	5 Working Days.
C	Non-Emergency Faults requiring the Replacement of a complete unit of Apparatus, including those made safe as Emergency Faults.	20 Working Days.
D	Non-Emergency Faults requiring the Replacement of bodies only to Illuminated Traffic Bollards, including those made safe as Emergency Faults.	1 Working Day.
E	Non-Emergency Faults requiring the repair or Replacement of any of the DNO's equipment.	20 Working Days.
F	Non-Emergency Faults requiring the removal from Apparatus of any Offensive Graffiti.	1 Working Day.
G	Non-Emergency Faults requiring the removal of Graffiti.	5 Working Days.
H	Non-Emergency Faults involving rectification of non-operating belisha beacons and flashing school warning signs	1 Working Day.
I	Non-Emergency Faults requiring the removal of any Unauthorised Attachments from Apparatus.	5 Working Days.
J	Emergency Faults attendance to make safe, including the removal of unauthorised attachments, which pose a safety hazard.	2 Hours – any day of the week

There are no 'benchmarks' or '% targets' to be achieved on the above – the Service requirement is simply to provide this level of service. Failures to achieve these service requirements results in deductions from the Unitary Charge, which are seen as 'compensation' to the Authority for an agreed level of service not being achieved.

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Appendix F shows a chart indicating the deductions from the Unitary Charge made for each of the 6 monthly periods since the Project commenced.

With the commencement of the PFI contract coinciding with the establishment of Environment on Call, the opportunity was taken to ensure that the Environment on Call operators have access to information that would assist in identifying the location of street lighting reports and that effective communication links were established with the contractor. Software now allows those receiving a fault report at EoC to identify the exact installation on a plan, and this is automatically relayed to the computer systems in Amey's offices, and the fault generated for the repair teams to attend. When Amey close the fault on their system, this automatically feeds back to the EoC system and closes the fault on that system too.

2.7 Financial aspects.

The PA is based on financial arrangements formalised in a Financial Model agreed between the parties. The underlying basis of this arrangement is the payment to the Service Provider of an agreed fixed annual payment of approximately £ 6 M, called the Unitary Charge, subject to an annual adjustment of 50% of the cost of living index. One twelfth of the Unitary Charge is payable monthly – the Monthly Unitary Payment (MUP). These monthly payments to the Service Provider commenced for the first 6 months at 50% of the MUP and increase to 100% of MUP over the following 51 months. (See section 2.3 of this report for the target IARP and the 51 months.)

The monies paid to the Service Provider in the first three years of the contract between July 2004 and June 2007, including payments over and above the MUP for accruals, erection of Homewatch signs and the other agreed items, total £ 10.7 M.

During the 25 year period of the PA to June 2029 the expenditure is estimated to be approximately £ 208 M, assessed as follows:
£ 164 M to the Service Provider – the Unitary Charge (see above)
£ 43 M for the energy tariff (see below)
£ 1 M for miscellaneous payments such as accruals, erection of 'home watch' and other signs, etcetera.

These three expenditure items are funded by the Authority's annual street lighting Revenue Budget plus a special PFI Grant.

The estimate of monies in the Revenue Budget is based on the amount of £ 4 M at 2004 with modest annual increases of 2.4%, totalling £ 135 M over the 25 years. See below for the special PFI Grant.

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Simple pie-charts showing the estimated Income and Expenditure are attached as Appendix B to this report.

Energy (Electricity tariff and Invoices for lighting street lighting apparatus).

The Invoices for energy consumed by street lighting equipment are payable by the Authority and have been estimated as approximately £43 M in total. The actual tariff payable for energy is one of this Project's significant risks, as this estimate assumes only modest annual increases in energy tariffs of 2.4%. For example, in this coming year 2007/2008 the likely tariff for energy results in a charge of £1.99 M and the budget provision is £ 1.74 M, a shortfall of £250,000 for this financial year. The £43 M energy estimate to year 2030 relies on the energy tariff reducing again next year to give a charge of £1.37 for 2008/2009.

A modest saving in energy consumption has been achieved by a change in the specification that allows the switching on and off of street lights to be changed – saving a few minutes of lamp burning time each day. This has been achieved at no extra cost to the PA and no change in the Unitary Charge.

Special PFI Grant.

The Authority is receiving a special street lighting PFI Grant of £2.9 M a year, amounting to £72.6 M over the 25 years. This is provided by £34.1 M of PFI credits calculated on a 7% return on the reducing balance over the 25 years. Any of the £2.9 M per year that is not used in paying the Service Provider through the IARP period is put in a reserve fund for the first 4 years, and these are then drawn down over the remaining years of the contract. The interest earned on any monies in the reserve fund is assumed to be 4.5% throughout the contract period.

2.8 Some major points affecting the contract are discussed below.

3 External factors affecting the IARP and the OPEX.

3.1 Sequence of works.

The order of works for the IARP programme was jointly determined and took into account several factors. The first 2 wards were chosen because of their proximity to the sub-contractor's depot in Factory Lane, making supervision during the initial start up period easier. Thereafter the order of the works was based on a combination of the general condition of the existing lighting columns, the crime and disorder figures and continuity of work.

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3.2 Flexibility - overall.

Within a large Authority such as Manchester, there are changing factors that can influence several departments within the authority. Crime and disorder statistics and highway expenditure programmes have been identified as having a continuing influence on the street lighting programme, and more recently the increased desire for safe canal walks and changes or additions to public open spaces require managing and assessing for funding to be incorporated into the PA.

The PA has change procedures to deal with any changes to the Agreement and the services to be provided, the standards to be applied, etcetera. Changes may be proposed by either the Service Provider or by the Authority, and can only proceed if both parties agree.

The ethos of this PFI arrangement is working in partnership – and to this end all parties -the Authority, the Service Provider, and the subcontractor Amey – work in partnership and open discussion, seeking to understand each other’s needs, aspirations, and constraints. Three successful Partnering Workshops have taken place to better implement and apply the partnering ethos.

3.3 Flexibility – responses to local issues.

Amey has established links with Ward Coordinators, and seeks to set up two meetings with them and interested Councillors or others before works commence in a particular Ward. These meetings are during the design process, and Amey seek to obtain “local” information to identify special requirements, such as crime and disorder hotspots or areas where special circumstances may affect the design and position of lighting. Ward Coordinators are asked and expected to manage the process of identifying and obtaining appropriate additional funding where requirements are not standard (this could be for extra strength columns to support hanging baskets, ornamental columns, additional columns etc.) These additional requirements, if appropriately funded, can then be incorporated if feasible into the design of the street lighting.

3.4 Flexibility – changing sequence to avoid street lighting works soon after footpath reconstruction by others.

Liaison between the footpath improvement team and the street lighting team is on-going and the street lighting programme has already been altered each year in liaison with the team to reprogramme works on affected street to prevent the new column works being later undertaken on the newly resurfaced footpaths.

4 Monitoring of the Service

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4.1 Client monitoring.

Street lighting in the City of Manchester is now managed, in accordance with the PA by the sub-contractor Amey. The majority (but not all) the work required of the Authority street lighting section is to monitor the Service Provider to give the Authority the assurance that the levels of service required under the agreement are being provided. To do this, a team consisting of the Street Lighting Monitoring Manager, a Deputy Manager, and two officers, has been set up to monitor the contract on behalf of the Authority. The contract is monitored under 6 performance standards (**see Appendix A**).

The work of the monitoring team includes, among other things, passing to Amey (or where appropriate, responding directly to) complaints about street lighting made direct to the Council (Amey manage the majority of complaints that are made directly to themselves), authorising payments, agreeing the monitoring reports (these deal with deductions), reviewing Amey's designs and attachments schedules, interfacing with other Council departments on relevant issues, and issuing any required instructions to the contractor.

4.2 Independent Monitoring.

The Authority and the Service Provider have jointly appointed EC Harris to act as Independent Certifier (IC) through the period of the IARP. The Service Provider meets the costs of the appointment as part of the services provided within the Unitary Charge (agreed monthly payment). The IC is responsible for certifying the quality of the newly installed apparatus and checks it is carried out in accordance with the design. The IC has also carried out an audit of the design process.

4.3 Director Level – or senior management – Monitoring.

A 'Partnering Board' has been established, the need for better communication at the top levels of the three parties to the Agreement having been identified at the second partnering workshop (see below). This Board identifies the significant issues and monitors progress to their successful management and conclusion.

5 Flexibility – changes – what is in and what is not in the Contract.

5.1 Changes to the Inventory - accruals and de-accruals

Monies for limited amounts of accruals (additional stock) are allowed for in the PA financing model.

The essential underlying management tool for the successful delivery of service and the ability to monitor the service effectively is an accurate Inventory of all the stock.

The stock consists of:

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- street lighting columns – approximately 54,500.
- Lit Street signs – approximately 4200
- Lit bollards – approximately 2100
- Other apparatus such as subway lighting, high masts, beacon poles,
- The total stock being approximately 61,000 at start of June 2007

This street lighting stock is constantly changing, mainly due to developments and highway improvements. An inventory of the street lighting stock at the beginning of the contract is included in the contract and new lighting can be added to the inventory, or where a street is stopped up, removed as appropriate. Amey make changes to the AMS, and the PA has clear mechanisms to allow adjustments to be made to the maintenance and energy consumption costs. On an annual basis the accruals and de-accruals in the period are agreed and the unitary charge (the base monthly payment for the following 12 months) is adjusted.

5.2 Festive Lighting

Funding for Festive Lighting is not in the PA.

The Authority is asked each year to provide festive lighting to various strategic areas around the wards (but not, to date, in the City Centre where lighting is provided by another department). The demand for Festive Lighting is growing, and the use has extended from Christmas decorations to those for other festivals and other faiths, and the costs, including the energy costs, are also rising.

There are no monies within the PA and Unitary Charge for the provision of festive lighting, but there are clauses that ensure that Amey will assist the Authority in erection and dismantling of any equipment hired or purchased by others for festive lighting.

For the Christmas of 2006 the Authority funded 50% of the costs (including energy) in District Centres where festive lighting has been a feature for previous years. The other 50% was provided by additional funding through Ward Coordinators/grants/local interest groups/trades people. Where a new area requested festive lighting 100% of the costs for this had to be met by others.

This constitutes a financial risk to the Authority, as costs and expectations are rising. Control or mitigation measures could include (i) other parties meet all the costs of any additional festive lighting they require, (ii) reducing the 50% contribution from the Authority as new proposals come forward, or (iii) more revenue funding.

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5.3 Canal Lighting.

Only limited amounts of existing canal lighting is included in the PA.

There are numerous lengths of canals within the City Centre and other Wards that are not included in the PA.

Should there be a wish to have more lighting installed or existing lighting added to the work carried out by the Service Provider then additional funding would be required.

5.4 Amenity Lighting and Public Open Spaces.

None of the City Centre public open spaces were included in the PA as a part of the Unitary Charge.

There are, however, mechanisms within the PA to add these to the inventory so that these can be included as a part of the OPEX service. Specifically, three of the main public areas (Piccadilly Gardens, Exchange Square, and Cathedral Gardens) were identified as requiring to be brought into the PA in the early years.

The monies necessary to carry out works to identify the condition and nature of the existing lighting in these public open spaces, plus any monies to repair and refurbish the existing apparatus, and all monies to maintain the public open spaces lighting, will all be additional to the PA and require additional funding.

Monies have been made available in 2005/2006 to inspect and accrue most of the existing amenity lighting in Piccadilly Gardens and Cathedral Gardens, but the annual cost of maintenance of this equipment, and the funding of that cost, has still to be agreed.

5.5 Housing Areas.

Existing 'street lighting' in certain parts of the Council's public housing areas had previously been maintained by the Authority's Street Lighting section pre-PFI at the expense of the Housing Revenue Account. This same apparatus has been identified and included in the Street Lighting Inventory of the PA and is being maintained by Amey.

Where housing areas have been or are to be managed by a successor Landlord, Service Level Agreements (SLAs) with those Landlords include the relevant 'street lighting' apparatus, and Amey will continue to maintain that apparatus with the same level of service as required for the whole PA.

Where new housing areas are to have new street lighting maintained by the Authority, the apparatus will have to be added to the Inventory in the PA through the agreed accrual process and the additional monies for the maintenance of these lights funded by the successor Landlord through the appropriate SLA (where one applies). Where there is no SLA the funding of maintenance for this new apparatus will re-

quire an increasing Revenue Budget.

5.6 **Footpaths and passageways.**

The installation of new lighting to existing unlit footpaths and unlit passageways is not included in the PA.

The PA only requires the Service Provider to maintain existing lighting on already lit footways and passageways, and to replace that apparatus if and when required as part of the IARP or OPEX.

6 **RISKS**

6.1 **Cessation of works by the Service Provider**

The consequences of the business failure of the Service Provider would be significant. The risk of this occurring is negligible, managed by the nature of and mechanisms within the Project Agreement.

As outlined earlier in this report, the Authority is in contract with a Special Purpose Company ("**SPC**"), 50% owned by John Laing Infrastructure and 50% by the Amey Group. The reason for using the SPC structure is to ensure that funding arranged for the project is only invested in the project. The SPC (the Service Provider) has no other clients or projects other than the MCC Street Lighting PFI Project.

The Service Provider funds the project's activities from three sources:

- The unitary payment from MCC, payable monthly. This commenced at 50% of its maximum level at the start of the project. The payment rises over the IARP to reach 100% (c£6m) by the completion of the replacement works in 2008.
- Investments made by the two shareholders, Amey and Laing.
- Debt provided by the Bank of Scotland.

The optimisation of these funding sources has been modelled so that when the borrowing is at its greatest, the Service Provider can still meet its various obligations to MCC, its Sub-Contractor, its Shareholders and the Bank of Scotland.

The Service Provider has robust legal agreements with its shareholders and lender guaranteeing the finance required for its project. The funding is invested under strict supervision. The Bank of Scotland has its own Technical Adviser. That Adviser's opinion is sought each month, and considered with the Independent Certifier's opinion, prior to the further injection of funds to pay for work undertaken.

To date the private sector sources have invested over £25m in the project, which is in line with their planning. Sufficient capacity remains within their

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funding sources to complete the project. The Service Provider structure would prevent any diversion of these funds to other activities.

The Council's Officers and its Advisers (PricewaterhouseCoopers and Adleshaw Goddard) scrutinised the project finances prior to contract agreement and had full sight of the funding documents at that time. Both the 4Ps and the DfT scrutinised the deal before signature. All of these organisations recommended that the parties proceed with the PA.

The Service Provider has a contractual obligation to provide an annual update of the financial model to the Authority, which they have done. To date the Authority has have not identified any suggestions that funding may be jeopardised.

As explained elsewhere in this report, the PA contains change provisions which allow both parties to propose changes. However neither party may unilaterally impose a change on the project. To date some changes have been agreed between the parties but these have been accommodated within the existing funding profile

Failure of the sub-contractor is a higher risk, and again the nature of the PA between the Authority and the Service Provider has brought this risk to 'as low as reasonably practical' level. The period of highest risk occurs during the IARP (from July 2004 to end 2008 in practical terms), as this is the period when Amey are incurring the greatest costs. These costs consist of, for example, (a) the highest level of staff and other workers required to remove and replace around 900 columns a month whilst also maintaining the existing stock and carrying out reactive repairs to faults, and (b) the investment in new columns, lanterns, lamps and other equipment.

The Authority is 'protected' by a progress and payment target that is 6 months and 9 months ahead of the Milestone targets that constitute penalty points that ultimately can result in termination of the PA.

This arrangement is indicated graphically by the chart attached as **Appendix C**.

6.2 Funding (Budget) Risk.

With most of the risks in providing the service and the risk in the apparatus itself transferred to the Service Provider, the risks in the service for the Authority are negligible.

Consequently the financial risks over the 25 years are also controlled, provided that the services required are those that are within the PA.

(Clearly there are other risks – e.g. that the Authority achieves the interest assumed on monies in the reserve fund; that annual inflation does not exceed estimates; that the energy tariff stays at minimum annual increases.)

The greatest risk to the Authority is adding additional services to those in the

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PA.

This would occur if new apparatus were added that had high maintenance costs, or if levels of service were to be increased.

6.3 Sub-Contractor Loss of staff

All of the staffing is Amey's (and the Service Provider's) risk. An area of concern they have is that towards the end of the IARP their staff will know that works are shortly to be completed and staffing levels will need to drop – and hence staff and workers will seek employment elsewhere. This would slow progress and affect the services.

Whilst not an Authority Risk, means of jointly alleviating this possibility have been investigated through the partnering workshops and the Partnering Board.

6.4 Pensions

All of the Authority's workers that wished to carry on with their street lighting works were 'Tuped' to Amey. The Authority carried the risk of any Pension liabilities that exceeded 9.6%. In April 2005 pension contributions increased to 11.6% and in 2007 to 12.6%. The additional liability on the Authority has been £42,500 to date and is a monthly charge to be added to the Unitary Payment. This will require additional funding over the life of the PA.

6.5 Service delivery less than satisfactory.

This is constantly monitored through the monthly reporting, operational review meetings, progress meetings, and design and planning meetings.

Shortcomings and concerns are raised and dealt with. Serious issues or those which escalate are then reviewed by the Partnering Board.

As compensation to the Authority, virtually all shortfalls in service result in deductions from the Unitary Charge payments. Amey have financial incentives to keep the services at the required levels.

6.6 Aspirations of developers.

Through Section 38s Section 278s, and any other developments and changes, those working to improve the physical environment around the City and Wards seek to design and install lighting systems.

This gives rise to two risks – developers not meeting their obligations or conditions; and those who are designing and installing giving little or inadequate regard to the cost of maintenance of their installations.

The cost of maintenance over the life of the installation far exceeds the cost of design and installation – and yet this is rarely acknowledged and even more rarely allowed for in additional funding.

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This is a significant risk and options for mitigating this risk are being investigated. These are likely to include ensuring that better controls are provided for enforcing or ensuring planning and highway conditions and requirements are met and that commuted sums for maintenance are sought wherever possible.

7 Benchmarking of PFI services.

The Authority is aware that simply monitoring the Service Provider and Amey to ensure the Service Levels are those required under the PA may not be enough to ensure or demonstrate value for money.

The Authority is a member of a street lighting PFI Coordination Group, and will be seeking with other members to identify means of comparing service levels and value for money if this is feasible.

Earlier this year the 4Ps published a report on PFI and PPP projects in the street lighting sector. They note that at the time of writing there were 35 street lighting PFI projects across England, including:

- 16* projects in operation
- 4 projects in procurement
- 15* projects which secured PFI Credits of £694 million on 1 August 2006, and which are preparing, or have submitted, Outline Business Cases.

*(Note * Representing the number of local authorities involved: some are collaborating in joint projects)*

The Authority is assessing the contents of this report and establishing what, if any, actions would benefit the Authority in achieving either better services or value for money without jeopardising the financing of the Project.

8 Situation at handover (end of contract in June 2029)

- 8.1 At the end of the contract, the Service Provider is required to hand over the lighting stock in a condition such that all items have at least a further 5 year life and do not require replacement in that period. The Authority has the opportunity to check the equipment in the months before the end of the contract and a retention sum is deducted from the last 24 payments; this retention sum is then paid after equipment is agreed to be in a satisfactory condition.

END OF REPORT

Appendices follow.

PFI Street Lighting Contract

To the Resource and Governance Overview and Scrutiny Committee.

Position at: 30 June 2007

APPENDIX A

The Private Finance Initiative (PFI) Street Lighting Contract

1. Introduction

This Appendix summarises the agreement between the Council and the Service Provider, and its sub-contractor AMEY, for the provision and maintenance of public lighting in the City of Manchester.

During the period of the contract, the Service Provider (SP) is required to:

- Maintain a comprehensive Asset Management System
- Carry out programmed maintenance to ensure a clean and bulk lamp change to the apparatus at relevant intervals dependant upon the lamp types in use
- Survey for structural integrity once every 6 years
- Carry out a TR22 risk assessment for the structural of all Apparatus annually
- Scout all sites at least once every 14 days
- Replace all columns identified as requiring life cycle replacement and deal with any other repair/replacements as may be necessary (the Annual Asset Replacement Programme or AARP)

2. Contract documents

The agreement is financed pursuant to the Private Finance Initiative and the Project Documents are based on the Standardisation Guidance issued by the Treasury Task Force. The procurement commenced on 16 March 2001 by the placing of a notice in the Official Journal of the European Union. Financial Close was achieved on 31 March 2004. The Project Documents to which the Council is a signatory include the following:

- the Project Agreement. This is the main agreement between the Council and the Service Provider for the performance of the Services. It includes a detailed Output Specification that sets out the Council's requirements for the Services and a Payment Mechanism that allows for deductions from the monthly payment should the Service Provider fail to meet the required standard of performance.
- the Sub-Contract Direct Agreement. This agreement is between the Council, the Service Provider and the Service Provider's Subcontractor, Amey Highways Limited. It allows the Council to step into the subcontract in the event that the Project Agreement is terminated and in such circumstances gives the Council a direct right of action against the Subcontractor in the event of a default under the subcontract.
- the Funders Direct Agreement. This agreement is between the Council and the Service Provider's funder, the Bank of Scotland. Under this agreement the Council acknowledge that in the event that the Service Provider is in breach of the Project Agreement the bank has a right to step in to perform the Service Provider's obligations prior to the Council exercising its right to terminate. The Council and the Bank agree arrangements during the step in period including the procedure for the appointment of a successor Subcontractor.
- Deed of Appointment of the Independent Certifier. The Council and the Service Provider have jointly appointed EC Harris to act as Independent Certifier. The costs of the appointment shall be met by the Service Provider as part of the Services. The Independent Certifier is responsible for certifying the installation of new apparatus by the Service Provider as part of the Initial Apparatus Renewal Programme
- Admission Agreement. Under this agreement the Council has agreed to act as guarantor to the Service Provider's subcontractor under the admission agreement to the Greater Manchester Pension Fund. This ensures that the employees remain pooled with the Council's own staff for

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actuarial purposes and therefore the same contribution rate applies. Under the Project Agreement the Council has agreed to meet any additional costs that arise because the contribution rate has increased over the current rate of 9.6%.

The Contract started on 31 March 2004 and the Service Provider mobilised, in accordance with the contract, so that it commenced work by 30 June 2004

3. Monitoring and Liaison

There are a number of mechanisms within the Project Agreement that provide for monitoring and other liaison in connection with the Project. Authorised Representatives and Assistant/Deputy Authorised Representatives are appointed by each of the parties and have the authority to give approvals and consents required under the agreement.

A Monthly Service Report is prepared by the Service Provider and contains details of the design/technical issues arising in the Project including progress of the IARP/AARP and any amendments required to the programme.

The Monthly Monitoring Report is prepared by the Service Provider and submitted to the Authority in draft form within seven Working Days from the last Friday of every month. The report sets out the amount due in respect of the Services for that month including the deductions and other adjustments made in that month.

Regular meetings are held to discuss programmes, problems and solutions and the reports described above.

In the event of a dispute initially the matter is escalated to senior officers within each organisation. Any further dispute must be referred to the Liaison Committee before any other method of dispute resolution is invoked (mediation, adjudication, arbitration and/or courts).

4. The IARP Services

The IARP Services will be carried out over the first five years of the Contract Term and the monthly unitary charge payable to the Service Provider has a decreasing deduction (i.e. the sum of money paid increases) as the replacements are progressed. During the IARP Services, the Authority ensures that appropriate Ward Coordinator liaison is carried out (to identify enhancements (and funding for those enhancements) and to ensure attachments are replaced.

The Service Provider is required to consult with local stakeholders in relation to the IARP Services; in particular the Ward Coordinators may request enhancements to the design such as increased white light or columns capable of holding hanging baskets. Any enhancements must be notified to the Service Provider at least 3 months before the work is due to commence. The Service Provider will then price the enhancements within 10 Working Days and the Council then has 10 Working Days to decide whether to proceed.

5. The AARP Services

The Annual Asset Replacement Programme or AARP Services secure the life cycle replacement of Apparatus as and when required during the Services Period. Individual units, lanterns or any components that form part of the Apparatus shall be replaced at any time during the Service Period to maintain compliance with the output specification. The intention is that ultimately all Apparatus will be replaced that does not comply with the lighting standards set out in the Output Specification

The key indicator that a piece of apparatus requires replacement is the TR22 risk analysis. Using the TR22 analysis the Service Provider will identify columns that do not meet the requirements for a lighting system in the output specification. Where inspection and maintenance reports indicate that the majority of lighting points in a system require renewal the Service Provider is obliged to renew the whole system. During the AARP the Service Provider is also required to replace illuminated signs and bollards as required.

The AARP Services are carried out in a rolling programme that is updated and reported to the Council on a quarterly basis.

PFI Street Lighting Contract

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6. Operation and Maintenance (including Asset Management System)

From 00:00:01am on 1st July 2004 until 23:59:59 of the last day of the contract all street lighting apparatus becomes the responsibility of the Service Provider, who will repair or replace (including accident and vandal damage) all equipment in accordance with the Output Specification.

The Apparatus consists of:

- All street lighting owned by Manchester City Council.
- Illuminated traffic signs and bollards.
- Outdoor car park Lighting and Public Park Lighting.
- Architectural and Amenity Lighting
- Floodlights fixed to lighting columns
- MCC cable networks.

The Service Provider has installed an electronic Apparatus Management System (AMS) that stores all relevant information on each unit of apparatus, identifies the location of each unit of apparatus, stores data on all fault information etc.

7. Health and Safety

The Service Provider is responsible for the compliance with all applicable health and safety measures required by law and by its own health and safety policies.

8. New Roads and Street Works Act

All works undertaken by the Service Provider for the PFI are deemed as Works for Road Purposes and the Service Provider shall comply with NRSWA.

9. Wayleaves

At Contract close the Authority was unable to provide full details of all the existing wayleaves provisions that have been made.

The Authority is responsible for all existing wayleaves and will, at its own cost, deal with any objections raised by building owners.

Where a new wayleave is required the Service Provider will endeavour to reach an agreement with the property owner at its expense, however if the Public Health Act 1961 is required to be invoked then the Authority will take over the legal proceedings at its expense.

10. Output Specification and Method Statements.

The Output Specification defines the scope, requirements and standards for the provision of the Services. The Performance Standards are as follows:

- PS1 Assessment, Design, Renewal or Refurbishment of Apparatus - provides the requirements of the Council on how the Service Provider should carry out its IARP and AARP plans.
- PS2 Apparatus Performance and Planned Maintenance - sets out the requirements of the Council to keep 98% of all apparatus in light at the relevant times, and defines the cyclical maintenance and inspection routines to achieve the requirement.
- PS3 Operational Response - sets out the requirements of the Council for the prescribed periods for the rectification of emergency and non-emergency faults.
- PS4 Customer Interface and Contract Management - sets out the requirements of the Council for the Customer Care and Apparatus Management System (see 6.2).

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- PS5 Best Value - sets out the requirements of the Council for the Service Provider's cooperation to provide information to allow the Council to comply with its Best Value duties.
- PS6 Working Practices - sets out the requirements of the Council that the Service Provider monitors and adheres to the agreed working practices laid down in the project documents.

11. Payment and Deductions

The basic financial principle underlying PFI is that the Authority pays for the services provided by the Service Provider. The Service Provider recovers all capital costs (e.g. replacement of lighting columns), maintenance costs and profit through a single Unitary Charge. As explained at section 4 above, agreed and reducing deductions are made from the Unitary Charge during the IARP (the first 5 years). Deductions are also made for under-performance to compensate the Authority and to incentivise the Service Provider to achieve the required service levels – they are not intended as a financial penalty.

The Output Specification details the performance required and the Payments Mechanism then details any deduction for poor performance. The Service Provider collates and monitors performance data and provides a Monthly Monitoring Report to the Authority. The Authority then pays the monthly payment (the Unitary Charge) to the Service Provider. The Service Provider then pays monies due under the sub-contract agreement to AMEY.

The Authority therefore has no direct payment mechanism with AMEY for monies due under the PA.

The Unitary Charge per month for 2004 to March 2005 was £ 497,000 – equivalent to £5,964,000 per year. However, as explained above, the deduction for columns not yet removed commenced at July 2004 at (minus) £248,500 and remained at this level until June 2005.

The Unitary Charge per month for April 2005 to March 2006 was £ 499,165 – equivalent to £5,989,987 per year. Deduction for columns not yet removed varied from (minus) £246,997 in June 05 to (minus) £ 201,471 in March 06.

The Unitary Charge per month for April 2006 to March 2007 was £ 504,825.66 – equivalent to £6,057,908 per year. Deduction for columns not yet removed varied from (minus) £197,738 in April 06 to (minus) £ 131,551 in March 07.

The Unitary Charge per month for April 2007 is £ 513,754 – equivalent to £6,165,057 per year. Deduction for columns not yet removed in June 2007 will be (minus) £115,507

The Service Provider and other Private stakeholders and the Bank of Scotland provide the additional monies required to provide the service together with the replacement stock through the first 5 years in particular. Through the main period of the IARP this is understood to be around £1.2 M per month, meaning that significant financing and lending is required through the early period of this PFI.

12. Excess Savings

If the Service Provider is making excess savings on the scheme then the Authority is entitled to a share. The Revenue Sharing Equity IRR is a measure of profitability and if this exceeds 25% then the Authority is entitled to a share. This is paid to the Authority when the relevant amount is distributed to shareholders

13. Adjustments to the Financial Model

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The financial model spreadsheet determines the base unitary charge that the Council pays. The model is updated by the Service Provider (the SPC) for significant changes and in any event is updated every 12 months.

14. Additional Income – Clause 36

The PA recognises that additional income may be and can be derived from others for use of the street lighting apparatus. Any contract for third party income related to banners and promotions (advertising is strictly prohibited), mobile phone masts, WiFi, etc. is entirely at the discretion of the Authority. Income, after the first £1,000 in any one month period, is shared 2/3 Council and 1/3 Service Provider. Any contract must minimise the consequent VAT liability for the Authority.

15. Change

The agreement allows both the Service Provider and the Authority to propose changes to the output specification through the change procedures; where the change results in a saving to the Service Provider's costs there will be a decrease in the monthly payment of the unitary charge to reflect 50% of the savings.

The Council cannot reject a change that is required in order to comply with Law or a 'Necessary Consent'. Furthermore where the change is required to comply with good industry practice and does not result in an inferior standard of services from that set out in the output specification prior to the change, the Authority must also consent to the change.

16. Attachments

There are three classes of attachments namely Authority Attachments, Third Party Authority Attachments and Unauthorised Attachments which are items attached to apparatus without the Council's (or Service Providers) consent. The Council has two options in relation to Attachments to Apparatus. It can either request the Service Provider to attach the items to the Apparatus and pay the Service Provider in accordance with a Schedule of Rates or install the Attachments itself.

17. Accruals

The agreement provides a mechanism of Apparatus to be added to (Accrued) or taken out of (De Accrued) the Scope of Services. This allows the Council to include within the agreement new Apparatus as it is procured from time to time including new Apparatus installed by Developers and adopted by the Council, installed by Developers on to an existing highway under s278 Agreements, installed by the Council under highway improvement schemes, and provided under planning agreements/conditions (if any).

On the Accrual of Apparatus the Monthly payment is adjusted by adjusting the Energy forecast to accommodate the new apparatus and increasing the price for the Services in line with the Rates in the contract

18. Handback

The Service Provider is required to ensure that at the end of the contract period all the apparatus is in a condition such that it has a minimum of 5 years life remaining in which it would comply with the Output Specification.

19. Partnering

The contract is being run on the basis of a partnership. Four Workshops between the Authority, the Service Provider, Amey, (with some interested members of other sections of the Authority in attendance) have been held at which aspirations and potential problems have been discussed.

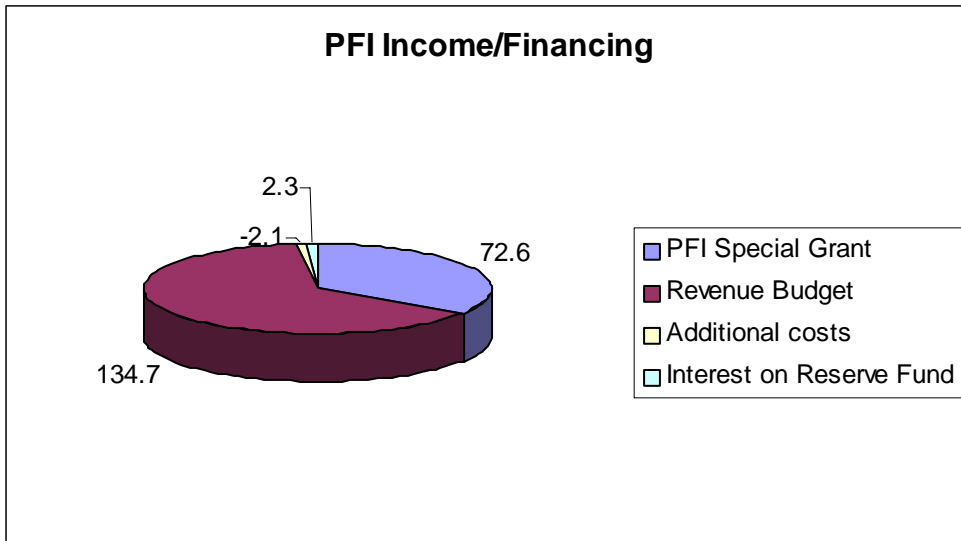
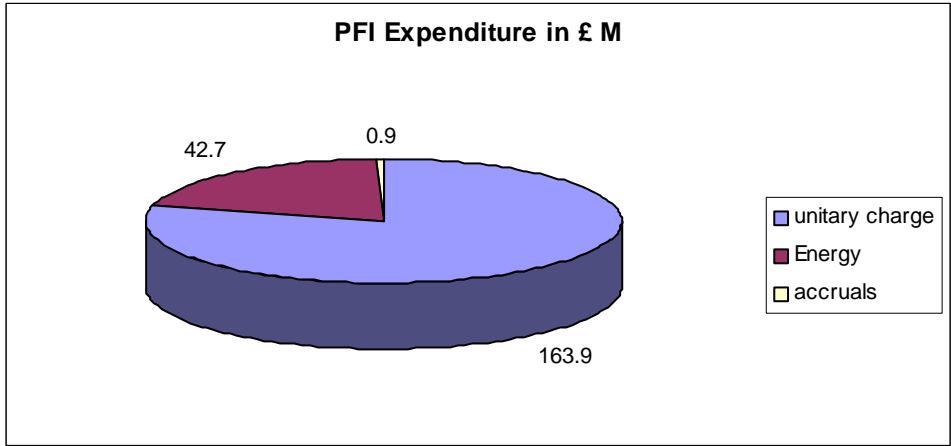
PFI Street Lighting Contract

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APPENDIX B

Estimated PFI '25 year' Income and Expenditure
updated after 2006/2007 results.



PFI Street Lighting Contract

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Position at: 30 June 2007

APPENDIX C

Progress Chart (next sheet)

Progress to date in removing columns under the IARP.

Notes when reading chart....

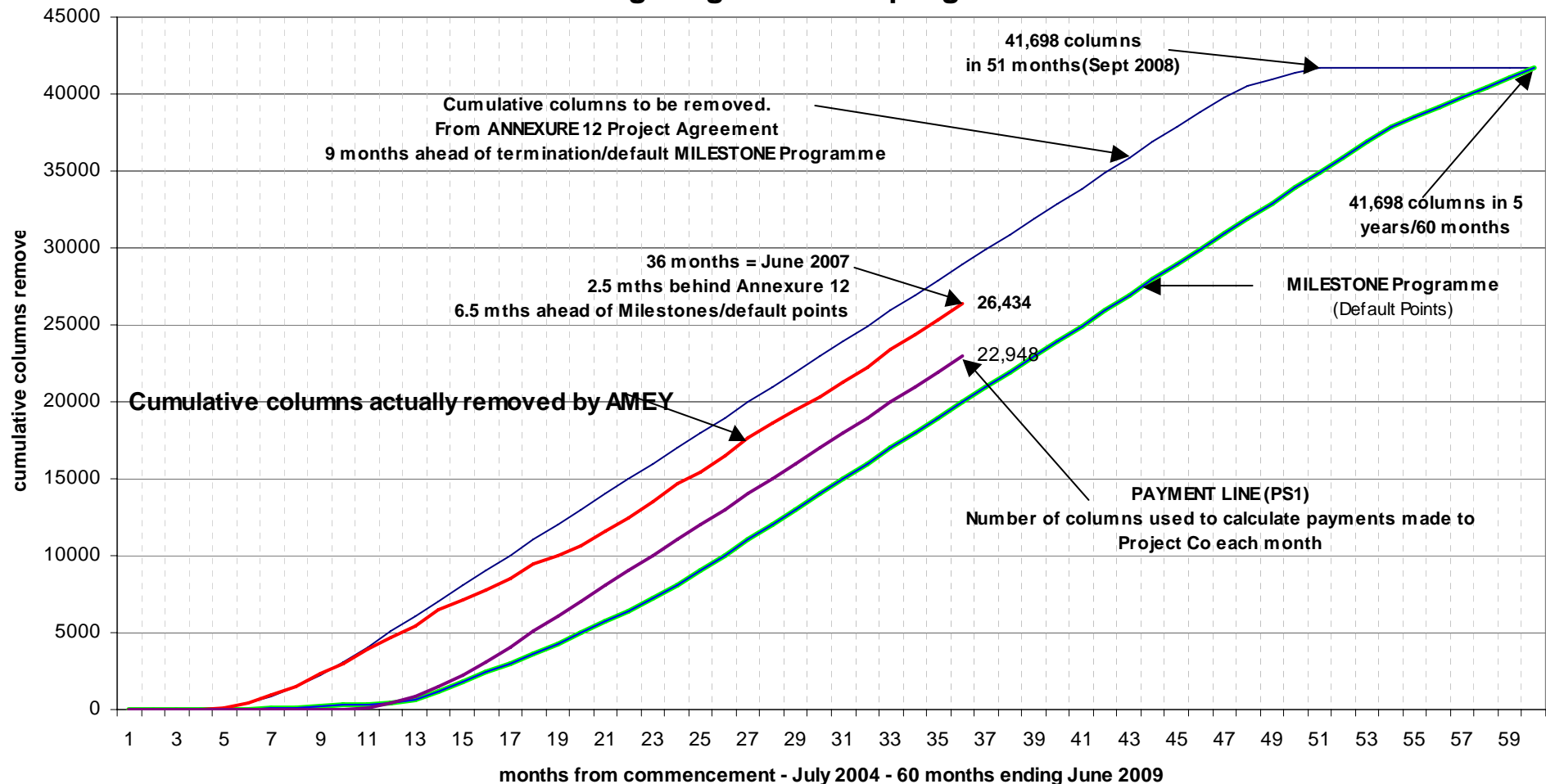
The Authority is 'protected' by a progress and payment target that is 6 months and 9 months ahead of the Milestone targets that constitute penalty points that ultimately can result in termination of the PA.

This arrangement is indicated graphically by the chart shown on the next page.

The agreement with the Service Provider provides a theoretical progress line for column removal which indicates an initial 'ramp-up' period followed by progress at 994 columns per month and completing the IARP at 51 months. This is included in the PA as 'Annexure 12'. The payment deduction from the Unitary Charge is calculated each month, not on actual progress made by Amey, but on the agreed Annexure 12 numbers. This removes the risk to the Authority and the Service Provider in variations of cash flow, as it allows each year to be budgeted accurately, whatever Amey's progress. Further 'protection' is provided by the calculation being on the numbers of columns removed deferred by 6 months, that is, payment is not on the theoretical progress line of Annexure 12, but 6 months behind the line. Amey are currently approximately 2.5 months behind the theoretical progress line but because we pay 6 months behind they are 3.5 months ahead of what we are effectively paying for. In the event that progress fell behind the Annexure 12 line by 9 months then default termination points are applied and can lead to termination of the contract.

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Street Lighting PFI - IARP progress



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APPENDIX D

Initial Apparatus Renewal Programme

IARP Programme to Completion (completing June 2008)

Amey Programme dated 02 July 2007

Manchester Public Lighting PFI Project IARP Part C Programme																	
Task Name	Task Description	Rem Dur'n	2007												2008		Preferred Start
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	
1000	Design of New Works	953	[Gantt bar]														01/May/04
18000	Moss Side	46	[Gantt bar]														04/Dec/06
19000	Harpurhay	101	[Gantt bar]														04/Dec/06
19200	Miles Platting 2	102	[Gantt bar]														01/Dec/06
19400	Miles Platting Regen area	81	[Gantt bar]														15/Jan/07
19600	Ancoats Regen area	48	[Gantt bar]														01/Mar/07
20000	Sharston	95	[Gantt bar]														01/Dec/06
21000	Brooklands Ward	126	[Gantt bar]														01/Feb/07
22000	Old Moat Ward	72	[Gantt bar]														20/Apr/07
23000	Rusholme ward	78	[Gantt bar]														23/Apr/07
24000	Higher Blackley Ward	50	[Gantt bar]														01/Jun/07
25000	Bradford Ward	112	[Gantt bar]														17/Jul/07
26000	Withington Ward	24	[Gantt bar]														19/Jul/07
27000	Burnage Ward	42	[Gantt bar]														11/Sep/07
28000	Ancoats and Clayton Ward	59	[Gantt bar]														10/Jan/08
29000	Moston Ward	45	[Gantt bar]														30/Aug/07
30000	Hulme Ward	25	[Gantt bar]														23/Nov/07
31000	Ardwick Ward	42	[Gantt bar]														04/Apr/08
32000	Charlestown Ward	56	[Gantt bar]														16/Nov/07
33000	Gorton South Ward	42	[Gantt bar]														25/Jan/08
34000	Footpaths 2007	68	[Gantt bar]														29/May/07
37000	City Centre 2007	202	[Gantt bar]														15/Jan/07
38000	City Centre 2008	58	[Gantt bar]														03/Mar/08

Client Manchester City Council	Project Info Start Date: 01/3/04 Finish Date: 04/7/08 Print Date: 04/7/07 File ref: IARP C rev 01 (Rev 02) 02 July 2007 .xls	Title Manchester Public Lighting PFI Project Sub Title 1 IARP Part C Programme Version: IARP C Rev: 02 Mod Date: 02 July 2007 Remarks: Refer to JARPP as rev 02 Miles Platting Regen Area not included Crete & Dispersal PFI schemes added to original programme.
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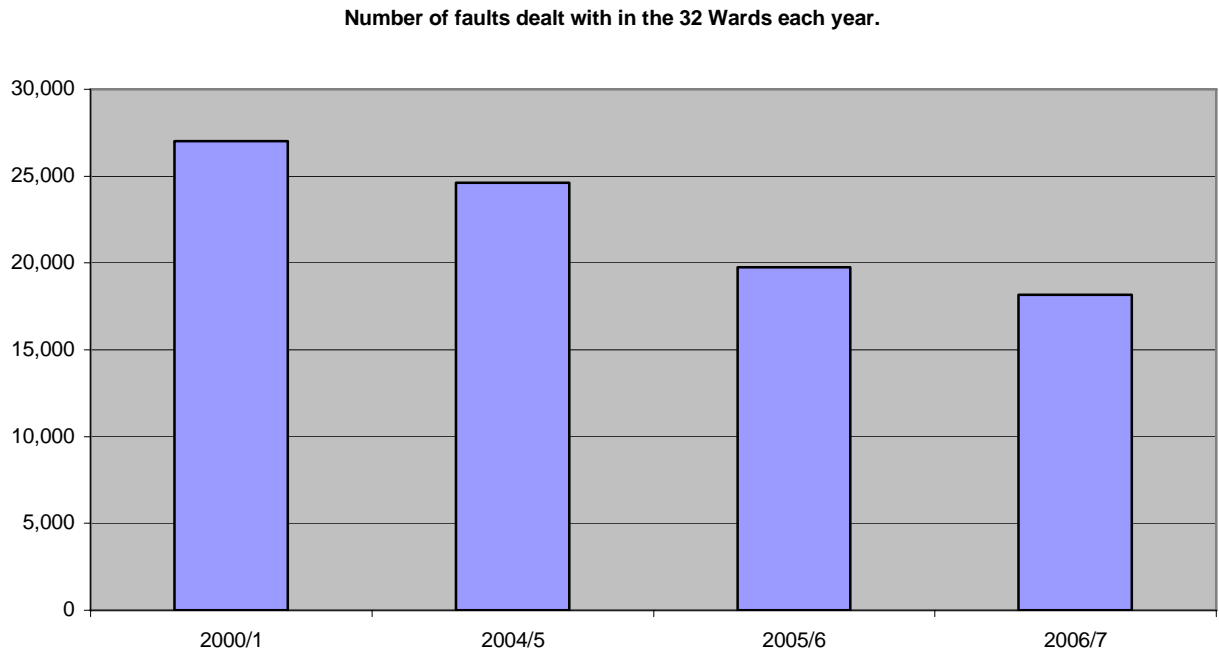
PFI Street Lighting Contract

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APPENDIX E

Chart – Numbers of street lighting faults reported each year



Note: The Chart demonstrates that the numbers of street lighting units with faults in each year – i.e. those requiring repair – is reducing significantly as AMEY proceed with the renewal programme and as AMEY also introduce improved maintenance regimes.

PFI Street Lighting Contract

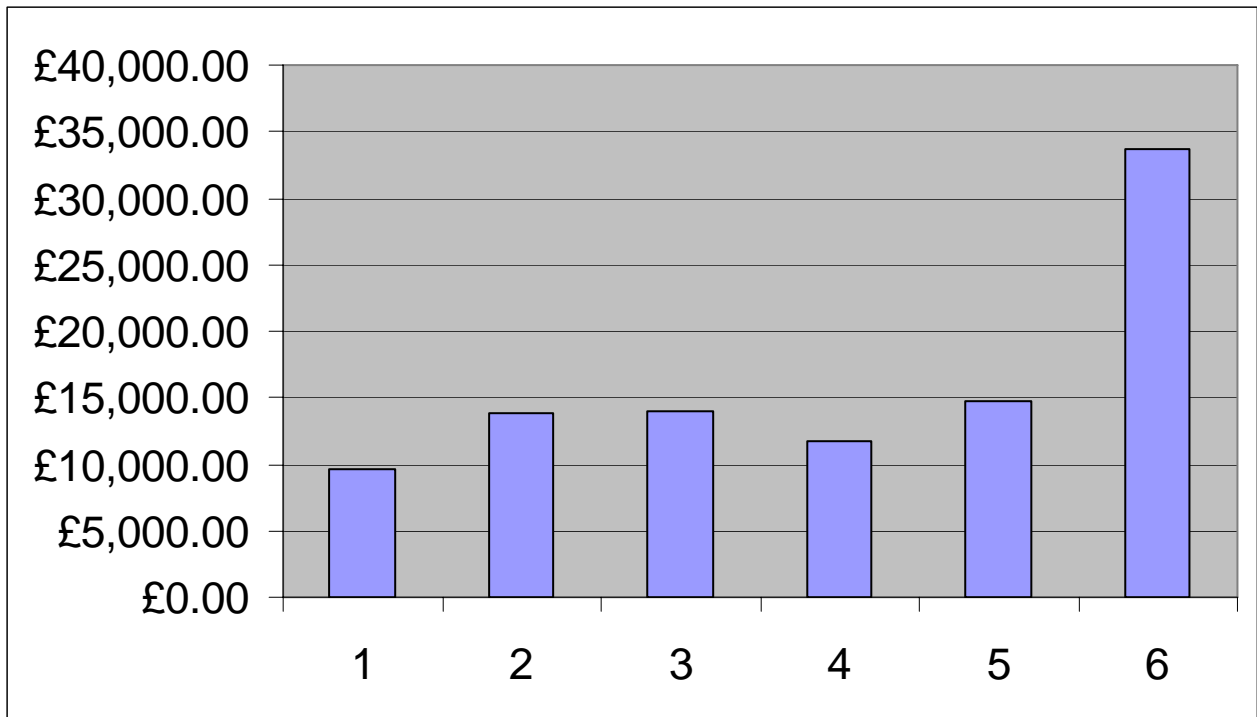
To the Resource and Governance Overview and Scrutiny Committee.

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APPENDIX F

Chart – Deductions made from Unitary Charge – each 6 months for 3 years

Deductions made from Unitary Charge
6 monthly totals over last 3 years.
July 2004 to June 2007.



Note: The Chart indicates the total monies deducted for each 6 monthly period. The significant increase in the most recent 6-month period is affected by the poor performance of United Utilities in repairing their 'DNO' faults – for which Amey incur a deduction.

Deductions are compensation to the Authority for a service level that does not meet the Service Levels agreed in the PA.

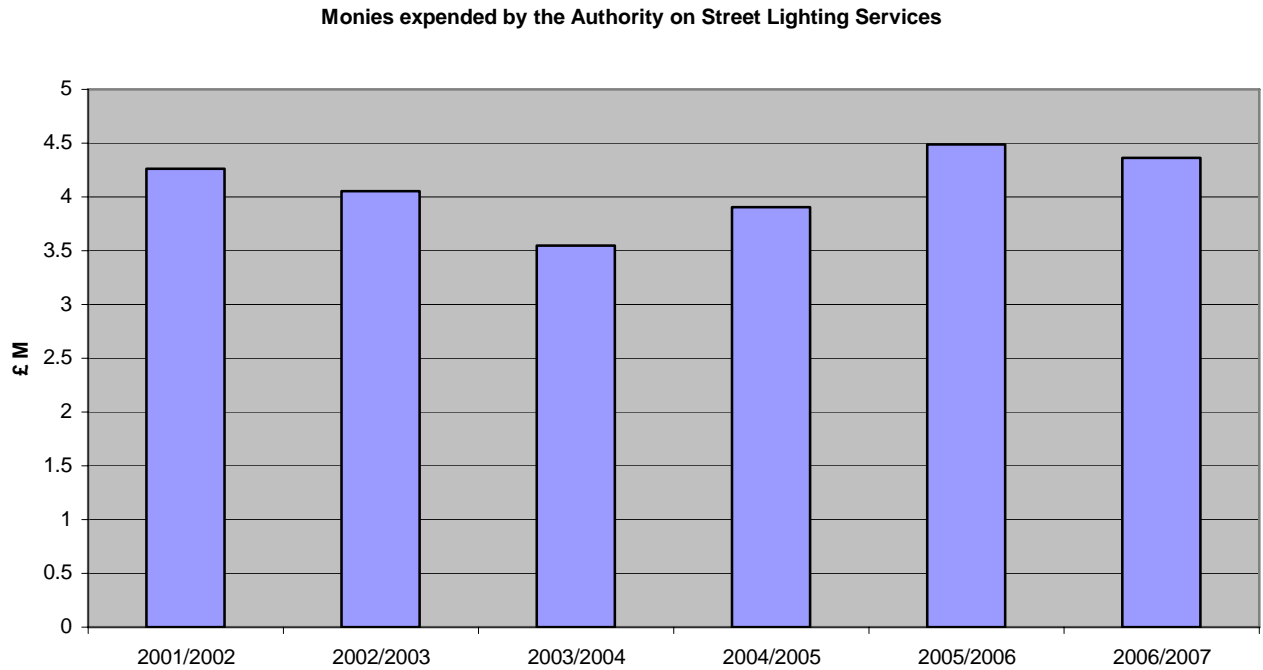
PFI Street Lighting Contract

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APPENDIX G

Chart – Monies expended by the Authority on Street Lighting Services (including energy)



Note: The first 3 years on the chart show monies expended PRIOR to the PFI Agreement (approx. £ 11.9 M over 3 years – including energy) – and the last three years show monies paid to the Service Provider and for energy (approx £12.8 M).

Note also that monies expended by the Service Provider (excluding energy) in the last three years is some £ 35 M compared to the Authority’s payments of £11 M.