

## Programme Management Group Meeting

14 November 2019

### Surrey LED Conversion and Central Management System – Item 5a

The Programme Management Group is asked to:

**AGREE: the recommendation that a loan of £2,638,889 is approved for the Surrey County Council LED Lighting and CMS lighting project.**

#### 1. Background

- 1.1 Surrey County Council (SCC) submitted a funding application to EM3 for a loan of £2,638,889 to part cover the capital funding of a total project cost of £18,400,000 required for the LED conversion and Central Management System (CMS) upgrade project.
- 1.2 The funding is requested to support SCC's conversion of the street lamps within the EM3 area to new LED lanterns via retrofitting or replacing the lanterns alongside upgrading SCC's CMS to 'Smart City / Internet of Things (IoT)' capability. The project will integrate digital technologies, reduce energy usage and subsequently reduce Carbon Dioxide (CO<sub>2</sub>) emissions.
- 1.3 The Council operates and maintains approx. 89,000 streetlights across the County with 59,575 of these lights (67%) are located in the EM3 region.
- 1.4 The three year programme, which is due to start on site in January 2020, will see a majority of the street lights in the EM3 area converted by March 2021 with the remainder finished over the summer of 2021 before continuing into the east of the County to complete the works in 2022. Loan funding from Enterprise M3 will ensure the delivery of this project in the Enterprise M3 area at the earliest possible opportunity thus providing significant energy efficiency measures, reducing CO<sub>2</sub> emissions as well as a 'smart city ready' network.
- 1.5 The project will see the lights converted to LED through a combination of approx. 66,000 lights retrofitted with LED equipment to reduce capital costs and minimise waste and for the remaining 23,000 lights where a retrofit is not practical the entire lantern will be replaced
- 1.6 Although the Council currently operates a Central Management System (CMS), as one of the early iterations of this technology, the equipment is not compatible with LED lights and so will be upgraded as part of the conversion.
- 1.7 LEP support to finance this energy reduction and technology project will help reduce the energy impact of providing street lighting whilst opening up opportunities for the County Council and partners to deploy innovative technologies in both network management to improve journey times and in managing and maintaining assets. As new technologies such as vehicle automation and connectivity develop the County Council will have a "ready" network to support both trials and ultimately full scale deployment once proven.

#### 2. Details of Project (include financial info and outputs/outcomes)

- 2.1 The total project cost of £18,720,000 requesting a 2,638,889 loan from Enterprise M3 to complete the LED conversion and CMS upgrade project.
- 2.2 AECOM recommended that EM3 seek clarity as to the cost breakdown for the works, as there was a £320,000 difference between the total cost stated in the Business Case and the

total cost stated in the pricing schedule relates to and ascertain if this is a significant material change. Surrey County Council have confirmed that this was an error and have confirmed the costs in line with the Pricing Schedule. They have also confirmed that the additional costs will be covered by the Public Works Loan Board.

<b>Cost Element</b>	<b>Budget</b>
Preliminaries, project management, design and insurance (inc design and variation)	£2,723,000
Labour, plant and traffic management	£2,766,000
Lanterns and LED gear trays	£8,074,000
Central Management System	£5,157,000
<b>Total</b>	<b>18,720,000</b>

2.2 The funding sources are as follows:

EM3 Loan	2,638,889
Salix Loan	13,405,700
Public Loans Work Board	2,675,411
<b>Total</b>	<b>18,720,000</b>

2.3 This project is driven by 2 specific outcomes:

- to reduce electricity consumption and in turn CO2.
- Upgrading the Central Management System is the opportunity to develop and introduce innovative technologies

2.4 Both of which have excellent strategic fit in terms of clean growth, future connectivity and mobility.

### **3 Outcome of Scrutiny**

3.1 AECOM were commissioned in September 2019 to carry out due diligence on this project.

3.2 They came back with the recommendation that the loan be approved subject to the clarification of their recommendations.

3.3 Since receiving the due diligence report we have been in contact with the applicant to request clarifications to mitigate the project risks. This section of the report summarises the recommendations of AECOM and how they have been addressed in advance of this report being presented to Programme Management Group.

3.4 The works will be delivered by Skanska with whom SCC have a 25 year PFI contract which commenced in March 2010. It is proposed that the works will be funded through a mixture of Local Growth Fund from Enterprise M3, Salix Loan (Salix Finance Ltd is an independent, not for profit company funded by BEIS, The Welsh Assembly Government and Scottish Government to provide interest free capital public sector to reduce their energy costs by enabling the installation of modern, energy efficient technologies and replacing dated, inefficient technologies) and a loan from the Public Works Loan Board.

3.5 Given this mix of funders and the fact that the works themselves require a Deed of Variation between Surrey County Council and Skanska, AECOM have made a number of

recommendations to ensure that the delivery of the programme remains robust and achievable. It is therefore proposed that the following will either be addressed as we enter into contract negotiations or as pre-conditions to our legal agreement with Surrey County Council:

- AECOM recommend that the agreed and signed Deed of Variation be viewed to provide confirmation of the project cost and programme.
- AECOM recommend EM3 request confirmation of the Independent Certifier when they have been appointed
- AECOM recommend that an updated programme be obtained and reviewed in advance of any funding being released
- AECOM recommend that the Commitment Letter and updated Reservation of Funding letter is provided by SCC prior to funding being awarded;
- AECOM recommend that, prior to the loan being provided, SCC provide a detailed cost breakdown

- 3.6 AECOM have also suggested that Enterprise M3 may wish to get an expert view on the energy and Co2 savings which are being projected from this project. The figures that we have been provided with are in line with existing metrics and are used by Salix who have experience of delivering other such projects across the country. Our recommendation therefore is that these figures are robust and provide sufficient assurances to support this project.
- 3.7 On a similar note, AECOM have suggested that Enterprise M3 may wish to have an independent technical assessment to verify the design life of the lighting columns. However, Surrey County Council have confirmed that the LED lanterns provide 100,000 hours of lighting (equating to approximately 25 years) which is under a warranty. Our recommendation is therefore that this provides sufficient assurances to PMG regarding the technical robustness of the project.
- 3.8 AECOM have raised issues regarding loan repayment and whether the cost savings from this project will be sufficient to cover the costs of repaying the loans. To address this point, SCC have confirmed that they will treat loan repayments as a commitment rather than relying on savings realised from this project to repay Enterprise M3.
- 3.9 AECOM recommended that Surrey provide a drawdown and repayment schedule and revised cashflow to show the repayments. Following discussions with the applicant it is felt that a drawdown and repayment schedule would cover both these points and mitigate the risk. The proposed drawdown and repayment schedule is attached, showing quarterly drawdown from January 2020 – January 2021, followed by six monthly repayments starting from September 2021 and ending in March 2026.
- 3.10 Finally, AECOM recommend that confirmation is sought from SCC once the PWLB loan has been received. This will be a condition of funding.

#### **4 Conclusion/Recommendation**

- 4.1 This project has excellent strategic fit in terms of clean growth and connectivity to enable future mobility.
- 4.2 As a loan this project represents an opportunity for Enterprise M3 to achieve the strategic aims above plus recycle the funding for future projects.
- 4.2 AECOM's due diligence report concluded that once Enterprise M3 have implemented the recommendations, and have considered viability and risk in the way that we would do for all projects, then their recommendation is that the loan is approved.

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