

MAYOR & CABINET			
REPORT TITLE	Fleet Vehicles Replacement Programme 2017/18		
KEY DECISION	Yes	Item No.	
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources and Regeneration Executive Director for Customer Services		
CLASS	Part 1	Date	7 June 2017

1 Summary

- 1.1 This report sets out details of vehicles in the council's fleet due for replacement as a part of the vehicle replacement programme 2017 to 2019. It summarises the criteria for inclusion in the programme and the steps taken in ensuring that the council obtains value for money in both vehicle procurement and financing.
- 1.2 The proposal is to replace 48 fleet vehicles, as listed in Appendix 1, at an estimated cost of £3.1m. It should be noted that £2m of this sum has already been set aside in earmarked reserves, agreed as part of setting the council's budget for 2017/18. Therefore, this report seeks the approval of an additional £1.1m of once-off funding which will be required for the planned replacements.
- 1.3 Contained within this report are the results of an independent options appraisal which sought to confirm the preferred method of acquisition, through either leasing or outright purchase of the vehicles through some form of borrowing.

2 Purpose

- 2.1 This report seeks approval for additional budget to finance the vehicle replacement programme for council's fleet. It also sets out the requirement for establishing a comprehensive vehicle replacement programme over the medium term.

3 Recommendations

- 3.1 The Mayor is recommended to:
- 3.1.1 Note the results of the options appraisal, as set out in section 6 of this report, which recommends the outright purchase of vehicles via a mechanism of internal borrowing.
- 3.1.2 Approve an additional once-off allocation of £1.1m for the 2017/18 fleet replacement programme for 48 vehicles, as summarised in this report and as listed in Appendix A to this report. This £1.1m will be in addition to the sum of £2m which has been previously agreed.

- 3.1.3 Note, that subject to approval, the Executive Director for Resources and Regeneration will use of The Procurement Partnership (TPPL) framework agreement for the supply of specialist vehicles and to run a mini-competition under the framework agreement for the vehicles required.
- 3.1.4 Agrees for officers to develop an approach to provide a comprehensive vehicle replacement programme for future years.

4 Policy Context

- 4.1 The council has endorsed the priorities adopted by the Local Strategic Partnership. One of the priorities is to 'improve the effectiveness, efficiency and sustainability of local public services, optimise investment in Infrastructure and improve the stewardship of assets'. The replacement of the council's fleet vehicles accords with this policy.

5 Background and Options

- 5.1 The fleet service sits within the environmental services division of the Customer Services Directorate. The service is responsible for the purchasing, management and maintenance of council owned vehicles, currently numbering around 130. The majority of the vehicles are used for refuse and recycling collection, cleansing or passenger services although a number of smaller vehicles are also used to support services across the council.
- 5.2 The vehicles are generally used beyond their expected road life. For example, refuse trucks are moved from domestic waste rounds to recycling rounds towards the end of their life as recycling collection is smaller tonnages and do not need the compactor facility. Once these vehicles are considered to be no longer road worthy, the fleet service seeks their replacement.
- 5.3 The vehicles contained in the report for which replacement is being sought are all in excess of 10 years old. Given that expected life of such vehicles is considered to be seven years, it has been deemed that 48 of these vehicles are either no longer roadworthy or uneconomic to maintain. This is for various reasons which include, MOT failure due to bodywork and/or chassis rust, parts no longer being available, truck chassis and body electrics deteriorate leading to breakdowns and excessive downtime.
- 5.4 One of the risks of using vehicles beyond their useful life is that, as the vehicles become older, the possibility of them spending more time off the road for repairs and maintenance increases, thereby impacting on the ability to provide an efficient service. Whilst the fleet carries a small number of older vehicles to provide cover arrangements in some instances, there is potential for the council to incur short term hire costs. Currently, the council is currently paying short term hire rates of £895 per week (£46.5k per annum) for nine vehicles. This is currently leading to a significant overspend for the service.
- 5.5 It should be noted that the proposal for replacement takes into account planned service changes, such the new waste and recycling services last reported to Mayor and Cabinet on 8 February 2017, and reflect the ongoing

needs of the service. Furthermore, it takes into consideration the ongoing discussions which officers are engaged with other local authorities regarding the possibility of sharing some services and vehicles.

- 5.6 Of the 48 vehicles to be replaced, only eight are still on fleet. The remainder have already been disposed of as they have been considered to be beyond economical repair. They have currently been replaced with short term contract hire.
- 5.7 The table below provides details of the eight vehicles which are current still part of the fleet, but for which replacement is being sought as part of the full list of 48 vehicles.

Table 1 – Remaining eight vehicles recommended for replacement

Fleet no	Specification Reference	Type	Date Registered	Mileage	Average standing costs per annum	Estimated Residual Value
1509	NRE16	L-Van	29/05/05	45,096	£3,318	£750
1510	NRE16	L-Van	29/05/05	39,052	£3,318	£750
1511	NRE16	L-Van	29/05/05	34,247	£3,318	£750
1514	NRE17	H-Van	30/08/05	70,250	£5,681	£850
1520	NRE6	7.5 ton tipper	15/03/06	230,609	£13,506	£1,800
1521	NRE6	7.5 ton tipper	15/03/06	242,502	£13,506	£1,800
1567	NRE7	Mini RCV	12/02/08	141,868	£24,396	£2,000
1568	NRE7	Mini RCV	12/02/08	152,432	£24,396	£2,000

6 Options

- 6.1 Officers asked Capita Asset Services (CAS), the council's treasury management advisors to carry out an options appraisal. They assessed the key funding options open to the council for the forthcoming vehicles acquisition and examined the pros, cons and associated costs of outright purchase versus leasing.
- 6.2 In summary, the options considered were as follows:
- 6.3 Internal Borrowing – The assets are purchased utilising the cash supporting the Council's reserves (on a temporary basis which may be replaced by external borrowing at a future date). An opportunity cost was applied to reflect the loss of investment income year on year (on a basis reflecting theirs and our interest rate forecasts). The cash flows will reflect the annual principal charge (MRP) with the opportunity cost being calculated on the reducing capital amount, net of MRP.
- 6.3.1 The main advantages of internal borrowing are:

- The council owns the assets from day one
- In the current economic climate, the early cost of using the funds will be lower than an external borrowing option, so there is no cost of carry.
- Reduced counterparty risk
- Complete flexibility on retention of the asset
- Complete flexibility on disposal or upgrade of the assets
- Equipment can be significantly modified without third party consent

6.3.2 The main disadvantages of internal borrowing are:

- Significant day one cash outflow
- The cash cannot be used for other activities
- The expenditure is on balance sheet
- The lost opportunity cost. Current economic forecasts suggests that the bank rate and fixed rates, will rise over time which carries a level of exposure to the council of interest rate risk when the reserves are replaced with external borrowing
- The council is liable for the cost of disposal of the asset
- The council is liable to achieve the sales proceeds anticipated for the asset(s) at the end of the retention period, and must account for these accordingly.

6.4 External Borrowing – The assets are purchased utilising external borrowing from the Public Works Loan Board (PWLb). The interest rate is fixed for the retention period of the asset on an annuity structure. As the borrowing cost is matched to the life of the asset, the principal and interest payments are contained within each year. The cash flows will reflect the annual principal charge with the interest charge calculated on a semi-annual in arrears basis and the recharge rates has been agreed as the Cumulative Rate of Interest (CRI) on the Authority's debt portfolio.

6.4.1 The main advantages of external borrowing are:

- The council owns the assets from day one
- In the current economic climate, the cost of using the funds in the earlier years will be higher than an internal borrowing option, so there is a cost of carry
- Complete flexibility on retention of the asset
- Complete flexibility on disposal or upgrade of the assets
- Equipment can be significantly modified without third party consent

6.4.2 The main disadvantages of external borrowing are:

- The council has a debt liability
- The expenditure is on balance sheet
- The lost opportunity cost, given current economic forecasts, will rise over time which carries a level of exposure to the council of interest rate risk when the reserves are replaced with external borrowing
- The council must instigate process management for the disposal of assets and absorb the associated costs.
- The council is liable for the cost of disposal of the asset

- The council is liable to achieve the sales proceeds anticipated for the asset(s) at the end of the retention period, and must account for these accordingly.

6.5 Lease – The assets to be acquired are purchased by a lessor, either directly from the supplier, from the Council or via a purchase agency arrangement with CAS. Over the lease period, the council pays the lessor fixed rentals for the use of those assets. At the end of lease, the council can return the assets, extend the lease or purchase the assets.

6.5.1 The main advantages of an operating lease are:

- The risks and rewards of ownership are with the lessor
- The residual investment is incorporated into the rentals payable, so the council pays rentals based on the depreciation of the asset(s), rather than their full cost
- The council has no cost obligations to sell the asset or recognise loss/surplus on sale proceeds
- Provides off balance sheet financing
- Promotes a discipline to replace assets regularly at the end of the preferred retention period

6.5.2 The main disadvantages of an operating lease are:

- A third party owns the assets during the lease term
- Assets need to be returned and therefore potentially tracked during their life
- The council must ensure the assets are returned in a saleable state and if they do not comply with the return conditions specified in the contract, the council could be liable for charges
- If the council decides to purchase assets at the end of lease, the total cost of ownership will be more than that of borrowing or a Finance Lease
- Strong residual values at the required lease period are key to achieving operating lease classification

What does an Operating Lease suit?

- Assets that retain a second hand value
- Assets that will be replaced at the end of the lease term
- Assets that can be easily returned at the end of lease finance lease

6.5.3 The main advantages of a finance lease are:

- The rental profile and term can be matched to an asset(s) working life
- The council enjoys the risk and rewards of ownership
- Total Cost of ownership known at the outset
- If the council wishes to extend the lease beyond the preferred retention period, it is at nominal peppercorn levels
- The council can (if required) take title to assets for a nominal sum at the end of lease
- Can include almost any acquisition costs on the lease

6.5.4 The main disadvantages of a finance lease are:

- The council has a debt liability
- The expenditure is on balance sheet
- The council is liable for the cost of disposal of the asset
- The council is liable to achieve the sales proceeds anticipated for the asset(s) at the end of the retention period, and must account for these accordingly.
- A third party owns the assets during the lease term

What does a Finance Lease suit?

- Assets that will be retained for a long period
- Assets that do not have a good second hand value
- Assets that cannot or will not be easily returned at the end of lease

6.6 The appraisal and analysis suggests that the most prudent form of funding for all of the vehicles assets to be used is that of internal borrowing. This results in a lower cost, by some 10% of the next best option which would be a finance lease.

6.7 The current internal borrowing rate has been modelled utilising the council's current weighted average rate of return which as at 31st March 2017 was 4.1%. Whilst this currently represents best value, when the debt is replaced externally this may increase the relevant interest rate being charged. As the council is looking to pursue a risk adverse position, and also, Veolia (the main supplier) did not reflect any anticipated sales proceeds within their pricing, then assumed retained sales proceeds of 75% of the residual value assumed by the most competitive lessor, thus reducing the funding risk to the council.

Procurement Route

6.8 Should the recommendations be agreed, then the vehicles will be procured using The Procurement Partnership (TPPL) for the supply of refuse and other specialist vehicles using the framework agreement set up by Hertfordshire County Council (HCC) no 2015/S22-035350 and Bath & Northeast Somerset (B&NES) no 2013/S211-365820.

6.9 The main reasons for using the TPPL frameworks is that it will enable the council gain increased buying power (framework value £250k > £500m) which in turn will give the council better value for money when purchasing vehicles. It also has advantages in being a quicker process by freeing up management time and does not necessitate a full OJEU tending process.

Future Requirements

6.10 The table below sets out the current estimates for the costs of vehicles due to be replaced in 2018/19 and 2019/20.

6.11 The final requirement will be largely dependent on the future of passenger transport services directly provided by the council and future demands on the refuse service. The finance officers are now working with officers in the

services to work up a detailed replacement programme. This will be reported back to members in due course.

Table 2 - Potential Vehicle replacement programme 2018-2020

	2018/19	2019/20	Total
	£m	£m	£m
Passenger Services	2.8	1.8	4.6
Refuse Collection	0.9	0.2	1.1
Other		0.2	0.2
Total	3.7	2.2	5.9

7 Financial implications

- 7.1 The council is currently incurring costs of some £698k per annum for the hire of 15 refuse vehicles, which is a significant contributor to the council's overspend. Should the recommendation be agreed to purchase these vehicles via the use of internal borrowing, then there would be a significant reduction in these costs replaced by the lower internal financing costs of £270k.
- 7.2 The estimated cost of the proposal to replace 48 vehicles to the required Lewisham specification is £3.1m. Of this, the £2m to fund the 2017/18 programme has already been identified and set aside in reserves. A further allocation of £1.1m for the programme is required.
- 7.3 The detail options appraisal undertaken by Capita Asset Services have completed a financial appraisal of the council's purchase options and recommend purchasing the vehicles using internal resources.
- 7.4 The vehicles will be purchased using The Procurement Partnership (TPPL) for the supply of refuse and other specialist vehicles framework agreement. There no direct costs to the Council for using the TPPL frameworks. There is a 1% surcharge against the successful supplier on completion of order.

8 Legal Implications

- 8.1 As stated in the report, officers are seeking a further £1.1 million to carry out a replacement programme for 48 vehicles for the reasons set out in section 5. Members must be satisfied as to the reasons for doing so and, in coming to that decision, weigh up the benefits and risks of the recommendation taking into account the future strategy for joint working.
- 8.2 The decision is a key decision and must therefore be included in the key decision plan.

9 Equalities Implications

- 8.1 There are no specific equalities implications directly arising from this report.

10 Environmental Implications

- 10.1 Modern vehicles are engineered to reduce the impact their operation has on the environment during their useful life and have a high recycling content at point of disposal.
- 10.2 The specifications for the vehicles requires that they meet the latest Euro 6 Construction therefore reducing emissions, fuel consumption and noise levels which ensures compliance with the requirements of the Ultra-Low Emission Zone for London.
- 9.3 Modern specialist vehicles used in the Refuse and Street cleansing service will increase both productivity and improve service delivery to residents keeping the borough clean and free of waste and improve re-cycling.

11 Crime and Disorder Implications

- 11.1 There are no specific crime and disorder implications arising from this report.

BACKGROUND PAPERS AND FURTHER INFORMATION

Short Title of Report	Date	Location	Contact
Budget 2017/18	22 February 2017 (Council)	5 th Floor Laurence House	Selwyn Thompson
Vehicle Appraisal Report – Capita Asset Services	February 2017	5 th Floor Laurence House	Selwyn Thompson

If you would like any further information on this report please contact:

Selwyn Thompson, Head of Financial Services on 020 8314 6932 or
Noel Everest, SGM, Fleet and Passenger Services 020 8314 2250

APPENDIX 1 – Vehicles to be replaced 2017/18

Type	No	Department	Estimated Cost
26 tonne RCV rear steer c/w split auto bin	12	Environment Refuse Domestic Collection	£1,740,000
24 tonne narrow track centre lift axle RVC c/w split auto bin lift	3	Environment Refuse, Trade Waste	£435,000
3.5 tonne Luton van	2	Environment Refuse bin delivery and repair	£60,000
Medium van	1	Environment Graffiti removal	£15,000
Large van	1	Environment Graffiti removal	£20,000
7.5 tonne tipper	3	Environment Street cleansing	£126,000
12 tonne open back mini RCV	3	Environment Street cleansing	£300,000
3.5 tonne tipper	2	Environment Street cleansing	£44,000
Light van	7	Environment Street cleansing	£91,000
Medium Van	1	Environment Street cleansing	£15,000
3.5 tonne tipper	2	Environment cemeteries and crematory	£48,000
Light van	3	Environment Pest Control	£39,000
3.5 tonne tipper	1	Environmental Pest Control	£24,000
Light van	2	Environment Green Scene Client	£24,000
Light van	1	Environment Nature Conservation	£12,000
Light van	3	Library Service	£36,000
Large van	1	Special duty clean team. Social Care	£28,000
	48		£3,057,000