

MAYOR & CABINET			
REPORT TITLE	Fleet Vehicles Replacement Programme 2019 to 2021		
KEY DECISION	Yes	Item No.	
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources and Regeneration Executive Director for Customer Services		
CLASS	Part 1	Date	10 July 2019

1 Summary

- 1.1 This report sets out details of vehicles in the Council's fleet due for replacement in order to meet the approaching Low Emissions Zone (LEZ) changes in October 2020.
- 1.2 The proposal is to replace up to a total of 75 fleet vehicles, as listed in Table 1, at an estimated cost of £7.7m. In late 2017/18, some 48 fleet vehicles were replaced using internal funding of £2.8m, through the Council's capital programme. This report seeks the approval of external borrowing to fund further 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 the Council's fleet as well as approval for the procurement route for the proposed fleet replacement.

3 Recommendations

- 3.1 The Mayor is recommended to:
- 3.2 Approve the immediate purchase of 65 vehicles for the 2019 - 2021 Fleet vehicle replacement programme, as set out in Table 1.
- 3.3 Delegate authority to the Executive Director for Customer Services to purchase a further 10 (passenger services vehicles) for the 2019 – 2021 Fleet vehicle replacement programme subject to the outcome of the travel and transport review.

- 3.3.1 Note the results of the finance options appraisal, as set out in section 6 of this report, which recommends the outright purchase of vehicles via a mechanism of external borrowing.
- 3.3.2 Approve external borrowing for the 2019/20 replacement programme for up to 75 vehicles, through the Public Works Loan Board, as summarised in this report.
- 3.3.3 Approve the use of The Procurement Partnership (TPPL) to utilise the NEPO and BN&S frameworks for the supply of specialist vehicles through the running of a mini-competition under these framework agreements for the vehicles required.
- 3.3.4 Due to the tight timescales in delivery of the vehicles and uncertainty around Brexit that the final award to the successful suppliers be delegated to the Executive Director of Customer Services for ordering over the summer period.
- 3.3.5 Agrees that officers should 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. 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 A total of 15 vehicles were replaced under the fleet replacement programme during 2017/18 all of the vehicles were beyond their expected economic life. Use of such vehicles beyond their expected road life can see MOT failures due to bodywork and/or chassis rust, parts no longer being available, truck chassis and body electrics deteriorating, which leads to breakdowns and excessive downtime, which impacts on the efficiency of the service. Refuse trucks are moved from domestic waste rounds to recycling rounds towards the end of their life, as recycling collection tonnages are smaller than refuse collection tonnages and do not need the compactor facility. Once these vehicles are considered to be beyond their economic life, the fleet service seeks their replacement.
- 5.3 In addition to this, the remaining refuse fleet (15) will reach the end of their expected economic life of 7 years at the time of changes to the current Low

Emission Zone (LEZ) on 26 October 2020. Emissions standards for HGV and buses will be raised from the current Euro5 level to the latest standard Euro6 across Greater London. All of the vehicles replaced approximately one year ago are of Euro 6 standard and would meet the requirements of the LEZ. Currently Lewisham operates 39 refuse vehicles (15 Euro6 owned, 15 Euro5 owned and 9 hired). The 15 refuse vehicles which are at Euro 5 emission standard will need to be replaced before the October 2020 deadline.

- 5.4 In addition to the 15 refuse vehicles that would not meet the Euro 6 LEZ standard, the Council currently hires in 9 refuse vehicles, at a cost of around £900 per week, per vehicle. This is approximately four times the cost of operating the council owned Fleet. This is currently leading to a significant overspend for the service. An increase in fleet size was required following the introduction of a food and green waste service. This report seeks permission to purchase 9 Euro 6 refuse vehicles to replace the hired element of the refuse Fleet.
- 5.5 The Cleansing service operates one 18-tonne tipper /grab vehicle for clearing fly-tips and highway sweeping .This vehicle was registered in March 2006 and will not meet the new LEZ standard and will require replacement.
- 5.6 On-going review of the provision of specialist accessible transport for Adult Social Care and Special Education Needs Children has identified the future requirement for this service will be 50 vehicles .Currently Lewisham Passenger Services (LPS) operates 50 fully wheelchair accessible buses (37 Euro 5 owned and 13 Euro 6 hired) The 37 Euro 5 owned buses are all beyond normal replacement age, with the average age of the bus fleet being 11 years old they are incurring high levels of down time and repairs costs, this report seeks permission for their replacement. This report also seeks permission to purchase 13 Euro 6 buses to replace the hired element of the bus fleet.
- 5.7 The London Low Emission Zone standards for HGV,s and Buses will be raised from the current Euro 5 emission level to the latest standard for exhaust emissions Euro 6 from the 26th October 2020.Any HGV or Bus from that date found operating within the LEZ(Greater London) which does not meet the required emission standard will be subject to a fixed penalty of £100 per day per vehicle .Failure to comply with the conditions of the LEZ would result in Lewisham incurring fines and will also be reported to the Driver and Vehicle Standards Agency (DVSA) which could lead to disciplinary action being taken against the authority's HGV and PSV operation licenses.
- 5.8 Due to lengthy lead-in production times for refuse vehicles and wheelchair accessible buses, usually around 6 to12 months, it is proposed to procure the vehicles as soon as possible. Vehicle suppliers are currently seeing high levels of demand for vehicles, as other London boroughs are seeking to replace their current fleet in time to meet the LEZ requirements.
- 5.9 The table below provides details of the vehicles for which replacement is being sought:

Table 1 – Vehicles recommended for replacement

Type	User Dept.	Number	Estimated Cost	Cost Per Vehicle
24 tonne refuse Vehicles	Refuse	24 (rep15 LBL owned and 9 hired)	£3,770,400	£157,100
Wheelchair accessible 17 seat buses (1)	Passenger Services	50 (rep 37 LBL owned and 13 hired)	£3,777,000	£75,540
18 tonne tipper/grab	Cleansing	1	£150,000	£150,000
Total			£7,697,400	

Note: (1) This report seeks approval for the immediate purchase of 40 passenger services vehicles with the acquisition of a further 10 being delegated to the Executive Director for Customer Services, subject to the outcome of the travel and transport review.

6 Finance Options

6.1 As has been the case prior to previous vehicle replacement programmes, 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
- 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 have 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
- 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. A lease can be structured as either an operating lease or a finance lease.

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 Based on the size of replacement programme, the appraisal and analysis suggests that the most prudent form of funding for all of the vehicle assets to be used is borrowing via the Private Works Loan Board (PWLB). Borrowing can be secured on an annual interest rate of 1.41%.

Procurement Route

6.7 In line with the Corporate Strategy commitment that the Council always consider the self-delivery of good, works and services rather than the procurement of these, officers have reviewed the specification and concluded that insourcing would not be appropriate or practical as the contract is for the supply of HGV vehicles and Buses, which the Council would not be able to manufacture within the necessary timescales, nor is likely to seek to manufacture in the future..

6.8 Should the financing recommendations be agreed, then the vehicles will be procured using The Procurement Partnership (TPPL) who will run a mini completion on behalf of Lewisham for the supply of Heavy Goods vehicles and other specialist vehicles using the framework agreements set up by the Association of North East Council Ltd, trading as the North East Procurement Organisation (NEPO), using OJEU contract ref – 2017/S 174-355957 award notice ref – 2017/S 220-457011 (total of 55 suppliers) and the Bath and Northeast Somerset Council (B&NES) OJEU contract ref – 2017/S 106-212142 award notice 2017/S 159-328518 (total of 27 suppliers) for the supply of Buses and Coaches.

6.9 Technical specifications for the vehicles will be written by Council officers taking into consideration all relative construction and use regulations, CE regulations, health and safety regulations, LEZ environmental requirements and service delivery needs.

6.10 TPPL will run a mini tender using the above OJEU compliant frameworks on behalf of Lewisham and apply the standard Council weighting of 50% on price, officers will then evaluate the qualitative elements under the following criteria:

- i) Meeting of Technical Specification,
- ii) Warranty/Quality,
- iii) After Sales/ Account Management,
- iv) Delivery Time, and
- v) Social Value

Scoring of these elements will follow the standard Lewisham approach of scoring 0 – 10.

- 6.11 Due to the short term transactional nature of the contract, and that the manufacture of the vehicles is outside of the UK, very little social value can be attributed directly to the Authority via this procurement therefore this element will be scored as a simple pass or fail. This approach has been discussed with the Procurement Team and considered alongside the Council's Procurement Social Value Policy.
- 6.12 The main reasons for using the TPPL frameworks is that it will enable the council take advantage of the increased bulk purchasing power which the contracts offer and in turn this will give the council better value for money when jointly purchasing vehicles along with other public bodies which though membership of TPPL have access to these contracts .This method of procurement was used successfully when completing the 2017/18 fleet replacement programme as mentioned in point 5.2 of this report. It also has advantages in being a quicker process (between 2/3 weeks) which does not necessitate a full OJEU tending process thus freeing up management time. The Council is able to tailor the weightings and criteria through the running of mini competitions and therefore apply its standard weightings and approach.

7 Financial implications

- 7.1 The Council is currently incurring costs of some £0.5m per annum for the hire of 9 refuse vehicles, which is a significant contributor to the council's overspend. If the Council's fleet was not replaced through purchasing and instead the Council hired further vehicles, the cost of this would increase significantly.
- 7.2 The estimated cost of the proposal to replace 75 vehicles to the required Lewisham specification is £7.7m. Should external borrowing through the Public Works Loan Board (PWLB) for the purchase of the vehicles be approved, then at current rates, a 10 year annuity loan could be secured at a rate of 1.41% which includes the council's certainty discount of 0.2%.
- 7.3 A budget mechanism could be devised through the capital programme, in order to provide for the future replacement of vehicles in an 8-year rolling programme. The budget would be provided to the service, but an assumed efficiency rate would be included, as the future interest rate available and cost of each vehicle to replace in the 8 years following any replacement in 2019/20 and the 2017/18 replacement programme, would have increased. There may be service changes during this time frame and it may be possible for the service to create efficiencies and the future replacement programme may require less than the 48 vehicles purchased in 2017/18 and proposed 75 in 2019/20.
- 7.4 Any vehicles replaced through this programme would be auctioned. The previous replacement of 48 vehicles in 2017/18 generated auction sales income of approximately £0.1m.
- 7.5 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, Mayor and Cabinet are asked to approve seeking external funding of £7.7m to carry out a replacement programme for 75 vehicles for the reasons set out in section 5.
- 8.2 The report further seeks approval to the use of the framework contracts referred to in the report for the purchase of the vehicles (see section 6.8 – 6.13). Given the potential spend these contracts, each of them would be categorised by Contract Procedure Rules as a Category A contract. As such, those Rules place requirements on how that should happen. The Rules require that when letting contracts steps must be taken to secure value for money through a combination of cost, quality and competition, and that competitive tenders or quotations must be sought depending on the size and nature of the contract (Rule 5). Given the potential spend on this contract the procurement regulations (Public Contracts Regulations 2015) will also apply. The requirements of both Contract Procedure Rules and the procurement regulations would be satisfied by use of a compliant Framework Agreement. It appears that the recommended framework agreements are EU compliant (paragraph 6.9), and that the appropriate mini-tender process will be followed (paragraph 6.10).
- 8.3 As Category A contracts, it would usually be for Mayor and Cabinet to take a decision on the award. However it is requested for the reasons set out in paragraph 3.3.4 that the final award decision is delegated to the Executive Director of Corporate Services. The framework agreements have predefined terms and conditions for the call-off contracts which will result from the mini-tenders, which terms the Council must use. The Legal team will be involved in advising on any risks arising.
- 8.4 The Public Services (Social Value) Act 2012 requires that when the Council is procuring services above the EU threshold – as is the case here - it must consider, before commencing a procurement process, how the procurement might be conducted so as to improve the social, economic and environmental wellbeing of the area. The matters to be considered must only be those relevant to the services to be procured and it must be proportionate in all the circumstances to take those matters into account. The Council has adopted a Social Value policy which must also be applied; and the Council's Sustainable Procurement Code of Practice will need to be applied to the contract. The report refers at paragraph 6.12 to the consideration of the policy, and to how and the extent to which it is intended that these issues will be taken into account in this process.
- 8.5 The decision is a key decision and must therefore be included in the key decision plan.

9 Equalities Implications

9.1 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.

10.3 Lewisham's specification for Heavy Goods Vehicles requires the vehicles to meet the 5 star ratings level for the new Direct Vision Standards for operating HGVs within London, this standard will be introduced (October 2020) in order to protect vulnerable road users.

10.4 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.

12 Further Information

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

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