



Hinckley & Bosworth  
Borough Council

*A Borough to be proud of*

## FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

COUNCIL

11 JULY 2017

WARDS AFFECTED: ALL WARDS

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### PROCUREMENT OF FLEET

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#### Report of Director (Environment and Planning)

##### 1. PURPOSE OF REPORT

- 1.1 To advise on the requirement to replace the council's vehicle fleet and to seek provision within the capital programme to finance the procurement of this fleet.

##### 2. RECOMMENDATION

- 2.1 That Council approves the procurement of the vehicle fleet from 3 April 2018 and supplementary budgets as detailed below:-
- a) a supplementary capital budget of £3,855,500 for fleet and equipment procurement;
  - b) a supplementary capital budget of £82,100 for the procurement of retained vehicles which is to be funded from the Grounds Machinery Reserve;
  - c) a supplementary revenue budget of £609,004 for the annual financing cost, which will replace the current revenue budget of £396,000;
  - d) an increase the Council's capital financing requirement of £3,855,500 to allow the purchase.
- 2.2 The decision on purchase and /or lease of fleet and equipment is already a delegated officer decision. For this procurement the decision will be made in consultation with the Executive Member for Neighbourhood Services.

##### 3. BACKGROUND TO THE REPORT

- 3.1 The current fleet of vehicles for the Street Scene, In House (Housing Repairs) and Environmental Health services are a mixture of leased and owned vehicles. The seven year lease with SFS expires on 31 March 2018 and the financial options for the fleet renewal have been undertaken by Capita Asset Services, the council's Treasury Management advisors. They have compared current costs for purchasing through capital financing against current indicative leasing costs. Their independent advice is that purchase is the more cost effective option over the life on the assets based on a seven year replacement cycle. The purchase option is costed at an

indicative £3,893,506 over the expected seven-year life of the vehicles compared to £4,194,012 for leasing over the same period. These costs exclude management and maintenance expenditure. As part of the procurement exercise, leasing costs will also be obtained for comparison.

- 3.2 The managers of the services have taken the opportunity to review the specification of the fleet to better reflect the current and future operations. The procurement of the fleet also assumes that the agreement to retain services in house, along with the bringing in house of the dry recycling service and trade waste that requires 6 additional refuse collection vehicles.
- 3.3 The fleet proposed is for 64 vehicles comprising:
  - 16 Refuse Collection Vehicles
  - 1 HGV (Multi purpose lift vehicle)
  - 2 Sweepers
  - 1 telehandler
  - 44 vans/LGVs of various body types and sizes
- 3.4 In addition there is a requirement to renew the current grounds maintenance equipment including items such as a tractor, gang mowers, etc.
- 3.5 A procurement exercise would be progressed through a relevant purchasing consortium, who can provide competitive prices for the provision of the fleet and the anticipated purchase or leasing cost.
- 3.6 The current vehicles have been inspected as to their condition, with recommendations on possible vehicles to be considered for purchase from the leasing company if favourable terms can be obtained against the cost of new. This will reduce the total cost of purchase and has been included as an estimated cost.
- 3.7 If the procurement exercise confirms that the fleet should be purchased, it is proposed that a maintenance contract including repairs and servicing is procured separately. This proposal will be also be subject to tender and will be included in the revenue costs for the services.
- 3.8 As part of the evaluation the management of the fleet will be considered and determined if additional resources beyond existing service managers, with support from the Compliance Officer within Street Scene Services is required. This is to ensure the authority complies with its legal duties as an Operating Centre for HGVs.
- 3.9 The renewal of the council's fleet replacing predominantly 7 year old vehicles means for customers:
  - Improving reliability of services for customers with less breakdowns affecting collections or delivery of services
  - More fuel efficient vehicles reducing pollution in our communities and lower fuel costs.
  - Ability to seamlessly extend collection rounds to residents in new developments due to extra capacity in vehicles
  - Flexibility with vehicles of similar specifications.
  - Ability to increase a trusted, reliable and low cost trade waste service to local business customers with increased income.
  - Improved staff morale through operating modern reliable vehicles and equipment.

4.0 EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

4.1 This report will be taken in public session.

5. FINANCIAL IMPLICATIONS [IB]

Purchase and Leasing Costs

5.1 The gross cost for all vehicles and equipment is estimated to be circa £3,855,500. If purchased the total financing cost is £4,263,026. This is based on borrowing £3,855,500 over 7 years at a PWLB rate of 1.51%. This compares to a lease cost of £4,194,012.

5.2 The lease cost assumes sale proceeds at the end of 7 years of £369,520. If the same sale proceeds are assumed the estimated net cost of purchasing will be £3,893,506. This means it is estimated that the overall cost over 7 years for the purchase option will be cheaper by £300,506. The information is summarised in the table below.

	Purchase			lease
	mrp £	int £	Total Cost £	Cost £
yr 1	550,786	58,218	609,004	599,145
yr 2	550,786	58,218	609,004	599,145
yr 3	550,786	58,218	609,004	599,145
yr 4	550,786	58,218	609,004	599,145
yr 5	550,786	58,218	609,004	599,145
yr 6	550,785	58,218	609,003	599,145
yr 7	550,785	58,218	609,003	599,145
	<b>3,855,500</b>	<b>407,526</b>	<b>4,263,026</b>	<b>4,194,012</b>
Less sales proceeds		(369,520)		in above
<b>cost over 7 years</b>			<b>3,893,506</b>	<b>4,194,012</b>

5.2.1 In accordance with proper accounting practice, the assets will be included in the Council's Balance Sheet for both options. The purchase option represents a saving over the life of the assets of £300,506 based on the indicative costing noted above. This is when considering capital and revenue together; the annual revenue cost of purchase is £9,859 more than the annual lease costs, with a capital receipt estimated at £369,520 at the end of year seven. However, any vehicles kept longer than 7 years due to outright ownership would reduce future revenue costs in later years. The benefit of the capital receipt net of the additional revenue costs delivers the £300,506 overall saving.

5.3 The purchase option also gives additional flexibility to either dispose or continue using the vehicles at the end of year 7.

5.4 Based on the indicative costs above the supplementary budget required for:

- Capital is £3,855,500.
- Revenue is £609,003 for the annual financing cost.

5.4.1 There is also a requirement to increase the Council's capital financing requirement by £3,855,500 to allow the purchase.

- 5.4.2 The current lease charge is £396,000, the purchase above, including the additional vehicles above the current fleet number, is expected to be £609,004, which is an additional revenue cost of £213,004 per annum.

### **Comparison against Current Budget**

- 5.5 Under the current contract the maintenance and lease costs are charged together as part of the contract. The maintenance element is separated from the overall contract cost at year end based on information received from SFS. The non maintenance costs are treated as a financing charge in line with accounting practise. Therefore, even under the current contract arrangements the vehicles are in the Council's Balance Sheet.
- 5.6 The current financing charge is £396,000. This charge is based on the current fleet of 10 refuse vehicles and not the 16 that is put forward in the procurement specification (5 Additional vehicles to cover in house dry recycling collection and 1 for creating additional capacity due to new properties). Additionally the grounds machinery is currently owned by the Council and is due for renewal. The table below compares a like for like comparison against the leasing option excluding the 6 extra refuse vehicles included in the replacement fleet being proposed.

<b>Current Fleet</b>	<b>Yr 1</b>	<b>Yr 2</b>	<b>Yr 3</b>	<b>Yr 4</b>	<b>Yr 5</b>	<b>Yr 6</b>	<b>Yr 7</b>	<b>Total</b>
New Cost	455,788	455,788	455,788	455,788	455,788	455,788	455,788	<b>3,190,517</b>
Current Cost	396,000	396,000	396,000	396,000	396,000	396,000	396,000	<b>2,772,000</b>

Based on the ONS RPI tables the in last 7 year increase inflation has increased by 21.45%. If this rate is added to the current cost the new cost should be £3,366,594.

### **5.7 Purchase of vehicles from the current fleet**

Apart from the fleet purchase above, there is an option to purchase vehicles from the current supplier. Eight additional vehicles are required either as back ups or to cope with current demand for waste. The cost of purchasing these vehicles will be £82,100. This includes 2 refuse vehicles. Currently there are spare vehicles that are becoming uneconomical to repair.

Members also have the option of reducing the financing costs if reserves are used. The grounds maintenance currently has a balance of £133,295. This could be used to purchase the vehicles from the current fleet.

### **Other**

Implications arising from any changes in the maintenance contracts will be reported in accordance with financial procedure rules when information is available.

- 5.8 These financial implications do not include the costs of maintenance, which is being considered separately.
- 5.9 Although according to Capita Asset Services purchase is the favourable option, the tenders will request purchase and lease costs. Additionally Capita Asset Services have not looked at the costs maintenance or management.

5.10 All costs quoted in this report are pre tender costs. Once tenders are received if an additional budget is required, this will require approval in accordance with financial procedure rules.

5.11 The net present value (NPV) of cash flow is a tool used to assess investment decisions, it attempts to indicate the cost of the investments based on the assumption of what the cash flow represents in current cash values. This takes into account the fact that inflation erodes the value or cost of money in real terms. The table below contains this information for the cash flows note in the table above, and indicates that purchase is the better option in NPV terms by £508,838.

#### Cash flow

Year	1	2	3	4	5	6	7
Interest	58,218	58,218	58,218	58,218	58,218	58,218	58,218
Loan repaid							3,855,500
Sale proceeds							-369,520
Buy cash	58,218	58,218	58,218	58,218	58,218	58,218	3,544,198
Lease cash	599,145	599,145	599,145	599,145	599,145	599,145	599,145

#### NPV\*

Year	1	2	3	4	5	6	7	Totals
Buy	56,743	55,305	53,903	52,537	51,206	49,908	2,961,328	3,280,930
Lease	583,962	569,164	554,740	540,683	526,981	513,627	500,611	3,789,768

#### Real terms savings

**-508,838**

\*Discount is based on inflation rate for May 2017 of 2.6% for the UK, office of National Statistics

## 6. LEGAL IMPLICATIONS [AR]

6.1 As set out within the body of this report a procurement exercise will be required to be undertaken to implement the recommendations that have been detailed. This will be in accordance with the Public Contract Regulations 2015.

## 7. CORPORATE PLAN IMPLICATIONS

7.1 The recycling service contributes to the corporate plan aims of Place:

- Keep our borough clean and green
- We will reduce our impact on the environment by cutting waste and encouraging recycling.
- Protect and improve our parks and open spaces for everyone across the borough
- Improve the quality of existing homes and enable the delivery of affordable housing

## 8. CONSULTATION

None.

9. RISK IMPLICATIONS

9.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

9.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

9.3 The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
Emergency provision of vehicles	Arrangements for spot hire of vehicles in place	
Fleet management requirements leading to increased liabilities.	Seek to include in maintenance agreement and manage within services.	All service managers
Financial – failure to control costs resulting in fleet system costing more than budgeted	Strong financial management	Caroline Roffey/ Ged Hickey

10. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

10.1 Reliable refuse and housing repair service provides support across the borough.

11. CORPORATE IMPLICATIONS

11.1 By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Procurement implications
- Human Resources implications
- Planning implications

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Background papers: Capita Appraisal Report.  
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