



## Hinckley & Bosworth Borough Council

### FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

Scrutiny Commission

24 May 2018

WARDS AFFECTED: ALL WARDS'

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### Procurement of Council Fleet

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

##### 1. PURPOSE OF REPORT

- 1.1 To update Scrutiny on the procurement of the council's fleet following report to Council in July 2017

##### 2. RECOMMENDATION

- 2.1 Scrutiny note the report

##### 3. BACKGROUND TO THE REPORT

- 3.1 The report to Council in July 2017 identified that the replacement of the council's fleet of vehicles for the streetscene, environmental health and housing repairs services was due in April 2018 with the expiry of the existing Specialist Fleet Services (SFS) lease. In addition the fleet was to increase from the bringing in-house of the dry recycling service, additional refuse rounds from increasing housing numbers and additional trade refuse rounds. It advised that the Council's financial advisors had suggested reviewing if purchase of the vehicles offered a better financial return due to the council's low interest rates for capital borrowing. Estimated values were reported to Council to obtain agreement for the allocation of capital.

Council agreed:

(i) Procurement of the vehicle fleet and the associated supplementary budgets as follows, be approved:

- (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 in the council's capital financing requirement of £3,855,500 to allow the purchase.

(ii) The decision on purchase and/or lease of fleet and equipment be delegated to the relevant officer in consultation with the Executive Member for Neighbourhood Services

3.2 Link Asset Services, our financial advisors, were engaged to carry the evaluation of these options. A thorough review by officers of their requirements and identification of any suitable vehicles to be retained through purchase was carried out. Link then carried out two OJU compliant tenders for the "Heavies" –Refuse Collection Vehicles, HGVs and the "Lights" - vans, box vans and pick ups etc. From the returned tenders it calculated from knowledge of manufacturer prices and discounts the likely purchase prices and costs of maintenance, sundries and fleet supervision.

3.3 The procurement costs of the vehicles, and notes on some of the pressures are included in tables below. These tables give the comparison to the budgets as agreed in July 2017. The procurement of the fleet also assumes the services remain in house, along with the bringing in house of the dry recycling service and trade waste, which requires 5 additional refuse collection vehicles. The report in July noted that it did not include the costs of maintenance.

3.3.1 The capital costs associated with the purchase and contract hire options are:

	Vehicles	Grounds Machinery	Total
<b>Capital cost</b>	£3,826,136	£202,345	£4,028,481
<b>Less residual value</b>	<b>-£304,795</b>	<b>-£10,000</b>	<b>-£314,795</b>
<b>Total capital costs</b>	£3,521,341	£192,345	£3,713,686

\*internal estimate

This is £141,814 (3.68%) below the approved capital budget of £3,855,500 agreed by full July council.

3.3.2 The revenue costs associated with the purchase and contract hire options are:

Final Position	Capital Costs	Maintenance	Total annual cost
<b>Contract Hire</b>	£	£	£
<b>HGV/Specialist</b>	432,054	231,632	663,686
<b>LCV/Grounds</b>	179,538	46,596	226,134
<b>Total</b>	<b>611,592</b>	<b>278,228</b>	<b>889,820</b>
<b>Purchase</b>	£	£	£

<b>HGV/Specialist</b>	450,423	358,047	808,470
<b>LCV/Grounds</b>	187,613	155,098	342,711
<b>Total</b>	<b>638,036</b>	<b>513,145</b>	<b>1,151,181</b>
<b>Savings to the GF using hire purchase compared to Purchase</b>	<b>-26,443</b>	<b>-234,917</b>	<b>-261,361</b>

- 3.3.2 This gives a best option for contract hire, which is £2,588 higher than the approved budget. This was discussed with the Leader of the Council and the Executive Lead for Neighbourhood Services, and it was agreed to move forward with the procurement based on the lowest cost option.
- 3.3.3 Note, this does not include grounds machinery, which is being purchased out of reserves and is not part of the contract hire agreement or the comparative purchase information above. This was because a hire contract was not available for such equipment with maintenance and did not offer a better position than purchase. Reserves of £200,000 will be used for this purpose and as such it will not have an annual revenue impact for capital costs, but does have maintenance of approximately £35,000 per year. There will be no increase in the current grounds equipment maintenance budget due to the purchase decision.
- 3.3.4 The Comparison above does not include:
- Road Fund Licence costs, the purchase of vehicle would require the council to pay road tax annually after the first year of £22,915, which is avoided if hire contract option is used.
  - Fleet Manager costs, the purchase of the new fleet if managed in house directly would require a fleet manager, with estimated costs of £50,000 per year, which is not required under the contract hire option.
- 3.3.5 The vehicles have a maintenance cost associated with them, that was not given in the Council report of July 2017. If purchased it was noted this would be subject to a separate procurement of a maintenance contract. The procurement exercise, indicated that there was no viable proposal for this based on the size of fleet being acquired. Our current costs of maintenance, prior to the increase in the size of the fleet to meet new demands, is £396,738, and is estimated to be £513,145, after allowance is made for increases in the size of the fleet. This has been used to compare to the contract hire maintenance costs contained in the tender exercise. The table above notes that the hire contract option gives savings of £261,261 compared to the overall expected costs for purchase. It is also lower than the previous maintenance costs incurred for 2017/18 of £396,738.02
- 3.3.4 This evaluation demonstrated that contract hire purchase was the lower cost option, with the exception of the grounds equipment, which has been purchased out of reserves. This evaluation also showed that it was actually preferable with lower risk to continue to lease the vehicles but with the repeat capital purchase of the grounds equipment. This is because maintenance costs are fixed irrespective of the actual costs of the work in individual vehicles and therefore the risk is borne by the hire company
- 3.4 Further detailed determination of the specifications for vehicles including further identification of retained vehicles from the current lease was carried out. This has

allowed increased payloads for housing repairs and the cleansing service on their vehicles which should increase efficiency in working. Several RCVs have been retained at no capital cost through Repairs and Maintenance agreements with SFS allowing spare vehicles to provide additional and emergency cover. The Telehandler already owned by HBBC will similarly continue under R&M. The full list of vehicles is given at Appendix 1. The necessary changes to the council's Operator Licence for Jubilee Buildings are being made.

Comparison with the previous contract hire rates shows interesting outcomes with RCVs increasing in cost by around 8% over the seven and half years, whilst Housing repairs have increased the size of vans whilst reducing their cost. Sweepers have increased significantly ~25% reflecting the high cost of maintenance of such vehicles.

- 3.5 Following the agreement of the Leader and Lead Member for Streetscene Services contracts for the agreed new fleet of 67 vehicles have been signed with SFS for the "Heavies" and with Leaseplan Ltd for the "Lights". SFS will continue to service their vehicles on site at Jubilee Building whilst the Lights will be serviced through Paynes Garage Ltd on behalf of Leaseplan, a short distance from the site.
- 3.6 Due to the long lead times for some specialist vehicles, it was agreed with the Lead Member to extend the existing SFS contract for the current fleet to 1 September 2018. Extension prices were negotiated with SFS and were agreed at approximately 15% lower than the current seven year old contract rate. Spot hires for the additional 5 RCVs to implement the new in house dry recycling service were similarly negotiated. These vehicles are to be replaced at the same time as the full fleet replacement on 1 September 2018. This deferred fleet change date also avoids the significant work on the Streetscene service from bringing dry recycling in-house in April 2018 and also the round changes from June 2018.

Costs for the extensions of the fleet until 1 September 2018 are as below:

	Revised rate to 1 Sept 2018	2011 contract rate equivalent
Cleansing	£28,062.00	£31,173.33
Waste	£127,635.00	£150,884.17
Green Spaces	£20,862.00	£23,180.00
Housing Repairs	£30,254.00	£38,032.50
Env Health	£1,239.00	£1,375.83
	£208,052.00	£244,645.83

- 3.7 Grounds maintenance equipment has been tendered through the ESPO framework and renewal of the equipment at £202,344.50 well within the identified budget of £250,000. This equipment has been ordered and will have been delivered in time for the summer season.

3.8 Discussions over the greening of the fleet through new technology low carbon vehicles were undertaken with Link and their advice was that vehicles with the required payloads etc. were not currently sufficiently advanced to recommend at the current time. Their advice was that when the fleet is due for renewal, the market would have matured substantially and could be considered at that time. Currently such vehicles are significantly higher purchase cost which would increase costs overall. The operation of the fleet is highly dependant on officers, particularly in the housing repairs service, taking vehicles home and that would not facilitate electric charging. The depot is currently set up for diesel and the new fleet will be Euro 6 standard which are significantly cleaner running than the current vehicles and therefore emissions will be lower.

4. EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

4.1 Open session

5. FINANCIAL IMPLICATIONS [AW]

5.1 The financial implications in relation to the option appraisal are noted in the body of the report, but are summarised in the table below.

<b>Description</b>	
<b>Capital Budget approved</b>	£3,855,500
<b>Capital budget obtained</b>	£3,713,686
<b>Lower than approved</b>	<b>-£141,814</b>
<b>Revenue Budget approved</b>	£609,004
<b>Revenue Budget of Contract Hire</b>	£611,592
<b>Higher than approved</b>	<b>£2,588</b>
<b>Maintenance costs incurred "Old Fleet"</b>	£396,738
<b>Maintenance costs Contract Hire</b>	£278,228
<b>Lower than prior budgeted amount</b>	<b>-£118,510</b>
<b>Annual cost if purchased</b>	£1,151,181
<b>Road Tax</b>	£22,915
<b>Fleet Manager (estimate)</b>	£50,000
Sub-total	£1,224,096
<b>Annual cost of hire purchase</b>	£889,820
<b>Saving of Contract Hire compared to purchase</b>	<b>-£334,276</b>
Amounts budgeted for in MTFS	£628,040
<b>Final Option costs</b>	£611,592
<b>Saving on MTFS position</b>	<b>-£16,448</b>

5.2 The table indicates that Contract Hire is a lower annual cost to the Council compared with the purchase option. This is based on a seven-year life cycle. This assumes the

Contract Hire can be extended, if needed, on light vehicles for an additional two years at the same rates. Waste Vehicles are on contract hire for seven years under the agreement.

6. LEGAL IMPLICATIONS [AR]

6.1 As set out within the body of this report, and specifically paragraph 3.7, there are ongoing procurement requirements. This is to ensure the Council discharges its obligations in accordance with the Public Contract Regulations 2015.

7. CORPORATE PLAN IMPLICATIONS

7.1 Through the provision of the fleet the following aims are delivered by the service areas.

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

8. CONSULTATION

8.1 The Leader and Lead Member for Neighbourhood Services were consulted and agreed key actions when required.

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
Delays in the provision of the new fleet impacting on service delivery.	Retention of existing fleet through negotiation.	Rob Parkinson

10. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

10.1 The council’s fleet enable the delivery of many of the front line service to the public across the whole borough. The new vehicles will provide more reliable services including the simplification of dry recycling and the use of new in-cab technology which will benefit users included those on assisted collections through direct information exchange.

## 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
- Data Protection implications
- Voluntary Sector

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Background papers: Vehicle Procurement Project

Contact Officer: Rob Parkinson Director (Environment and Planning) ext. 5641

Executive Member: Councillor M Nickerson