

Report to:	EXECUTIVE CABINET
Date:	23 March 2022
Executive Member:	Councillor Allison Gwynne – Neighbourhoods, Community Safety and Environment
Reporting Officer:	Emma Varnam – Assistant Director, Operations & Neighbourhoods
Subject:	COUNCIL FLEET REPLACEMENT STRATEGY
Report Summary:	<p>The Council currently operates a varied fleet of 239 vehicles and plant to provide its numerous services to the residents of the Borough. The estimated current fleet value as of November 2021 is in the region of £13,363,604</p> <p>Previous reports for the replacement of the fleet 2012, 2015, 2016; 2018 and 2019 have been approved on a per report basis. However, this approach does not support the Council's long or medium term financial strategy. Previously, future planning for the appropriate funding requirements for fleet replacement has been dealt with as required.</p> <p>This report and the attached 7 Year Fleet Replacement Strategy provides background to the current position, sets out the Council's current fleet requirements and the length of their safe and efficient operation before they need to be replaced.</p> <p>The strategy also takes into account possible changes to the Council service operations and the impact on fleet and the introduction of new legislation. It also considers the take up of new technological and environmental advances in vehicle design and build in providing the Council with a fleet that operates to the maximum efficiency in a safe and legal manner.</p>
Recommendations:	<p>That Board recommends to the Executive Cabinet to APPROVE the adoption of the Council's Fleet Replacement Strategy, as detailed in Appendix 1, including:</p> <ol style="list-style-type: none"> 1. An updated process to approve the Fleet Replacement programme, subject to annual review, that separates the up-front financial cost of procurement from the need to confirm and justify the requirement to replace vehicles. 2. To delegate authority to the Director of Place and the Director of Finance the procurement of replacement vehicles to the fleet in line with the strategy.
Corporate Plan:	The procurement of the Council's fleet requirements in a cost effective manner will enable the Council to continue to provide its services to the citizens of the Borough, and to deliver its corporate plan
Policy Implications:	The procurement of the vehicles is an essential requirement for the Council to provide services to the community in a safe manner in line with its obligations as an operator of large goods vehicles.

**Financial Implications:
(Authorised by the
statutory Section 151
Officer & Chief Finance
Officer)**

The strategy outlined in this report provides a long term summary of the Council's fleet replacement requirements. A cohesive strategy will greatly assist both financial and service planning.

The purchase of all new fleet and equipment will be funded by borrowing which will incur interest charges at the prevailing Public Works Loan Board rates. Costs associated with the procurement of new fleet and equipment will be met by relevant service area budgets over its useful life. Costs to service areas will include the purchase price, annual maintenance and associated interest charges (as referenced previously)

Proceeds relating to the disposal of any vehicles or equipment will be paid into the corporate capital receipts account where the value received is over £10,000. This is consistent with disposal proceeds of Council land and buildings. Sale proceeds under this value will be paid into the Transport Services revenue account and will contribute to the future maintenance costs of the wider fleet group.

An Executive Decision will be published at the start of each financial year that sets out the fleet procurement intentions for the forthcoming year. This will ensure appropriate governance is in place and all procurement decisions are in line with the Council's financial regulations.

It should be noted that whilst this strategy sets out the requirements for a number of years, an element of flexibility may be required as individual service needs change. It is advised that the strategy is reviewed on an annual basis.

**Legal Implications:
(Authorised by the
Borough Solicitor)**

It is understood that this report was suggested by finance to set an overarching strategy for the replacement of fleet vehicles and this report and the accompanying policy sets out to address this.

The proposal appears to be for the council to fund the replacement through borrowing and for the services to be charged a consistent monthly 'rate' for the vehicles. The aim of this is to improve the financial planning for the services by providing them with certainty and to allow the fleet service to build up a reserve fund which will be used to support its funding position to facilitate the one monthly rate for the full term of the arrangement and also to cover one off costs for the fleet services such as the replacement of depot equipment.

As set out in the report it is expected that the spend in some years will be considerable. It is therefore proposed that there will be an annual review for Members to scrutinise.

In addition whilst the procurement is delegated to the Directors of Place and Finance it is understood that their Executive Decision will include the consultation with the service requiring the replacements to ensure that there is a clear audit trail in relation to need, cost and affordability in line with both the transparency agenda and the council's duty to ensure best value.

The Directors of Place and Finance will also be responsible for ensuring that a compliant procurement exercise is undertaken in relation to the replacement fleet and related equipment.

Members may wish to consider reviewing the impact of this strategy after a period of time, perhaps 12 months because whilst there is a

built in review process that is intended to be reported to the decision makers only namely the Director of Finance and Director of Place.

Risk Management:

The Council has a legislative duty to operate its fleet in a legal and safe manner. The Fleet Replacement Strategy will ensure that the fleet replacement process is compliant, efficient and that the fleet requirements of the Council are met. Please also see Section 5.

Access to Information:

The background papers can be Inspected by obtaining them from the authors of the report Garry Parker, Head of Waste Management and Fleet Services



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1. INTRODUCTION/BACKGROUND

- 1.1 The Council operates a large and varied fleet of vehicles and equipment some 239 made up of 146 vehicles and 93 plant items to enable it to provide core services to the citizens of the Borough. Through the works of the Strategic and Operational Transport Group, the transport fleet has reduced by 33% from 220 vehicles to 146 since 2011. The fleet is made up of vehicles of mixed ages and types, on an agreed programme of annual replacements.
- 1.2 Following these Strategic Operational Transport Group reviews, regular reports for the replacement of the fleet 2012, 2015, 2016, 2017, 2018 and 2019 have been approved, with all of the fleet being replaced over this period.
- 1.3 This replacement process now needs to start again as a selection of vehicles have now reached the end of their operational life and require replacing. It is not practical or advisable to extend the period of operation of these vehicles further due to increased maintenance costs, reliability and safety issues.
- 1.4 This report, together with the attached strategy (**Appendix 1**) provides the case for a longer term strategy which will assist the Council in planning for fleet replacement.
- 1.5 The Strategy will allow for more targeted reporting for fleet replacement authorisations. The Strategy will provide the overarching authority to replace vehicles, subject to Director Approval, at the point of requirement.
- 1.6 The wide variety of the Council fleet has an operational life expectancy of 4, 5 and 8 years and details of the current fleet arrangements are provided as an appendix to the strategy.
- 1.7 A plan that covers the next 7 years would provide clarity on the Council's budget over this medium/long-term period. The anticipated estimated spend (not including any borrowing) over the next 7 years is as follows and is based on 2021 price estimates.

Date/Year	Number of items to replace.	Estimated Expenditure £
2022/23	51	1,155,450
2023/24	19	1,144,754
2024/25	43	1,596,500
2025/26	82	6,670,500
2026/27	28	338,204
2027/28	28	572,900
2028/29	26	2,319,500
Total 7 Year Expenditure		13,797,808

2 LEGISLATIVE REQUIREMENTS AND OTHER CONSIDERATIONS

- 2.1 The proposed Strategy reaffirms the Council's commitment to legislative and environmental factors when operating a fleet, as summarised below.

The Council's Operators Licence (O License)

- 2.2 Transport is one the most heavily regulated activities in industry and in order to operate its fleet of large goods vehicles and Buses, the Council must have a named individual as a person with a Certificate of Professional Competence (CPC) to hold each licence in order to operate its fleet.

- 2.3 The Council currently operates with two Operators Licences one for goods vehicles and one for Passenger carrying vehicles.
- 2.4 The 'O' Licence holder has a legal responsibility to ensure that the Council operates its fleet in a legal and safe manner. Even though not all of the Council's vehicles are subject to the 'O' Licence, (those vehicle less than 3.5Tons gross vehicle weight and those with less than 9 passenger seats) the Traffic Commissioners expects that a competent person would apply the same rigour and approach to all vehicles on the fleet.

Environmental Issues/ Greater Manchester Clean Air Zone

- 2.5 Environmental factors are a key consideration for Fleet Services when developing business cases for replacement of fleet.
- 2.6 Legislation regarding vehicle emissions is constantly being reviewed and updated. Current emission standards are based on Euro 6 type engines. It is known that improved engines reduce carbon dioxide, nitrogen oxides (NOX) and Particulate Matter (PM) emissions and also improve fuel efficiency.
- 2.7 The Greater Manchester Combined Authorities will implement its CAZ (Clean Air Zone) plans on 30 May 2022, with LGVs and Minibuses exempt until 2023, this in essence means that any commercial vehicle with less than a euro 6 diesel or euro 5 petrol will have a tariff applied to them should they be driving in the GM area. The Strategy will ensure that the Council is compliant to these requirements.
- 2.8 Waste Management and Fleet services have through its fleet replacement processes ensured that all applicable Council vehicles comply with the requirements of the clean air zone.
- 2.9 Nationally, the government pledged in its 2019 Clean Air Strategy to ban commercial sales of petrol and diesel engines by 2040, and in February 2020 it was proposed in Parliament to reduce this to 2035. It is clear that vehicles powered by alternative fuels are going to be the preferred choices in years to come.

Vehicle Build Times and Emerging Technologies

- 2.10 Emerging technologies, resulting in increased environmental, safety and efficiency improvements, are further considerations when Fleet Services develop the fleet replacement programme.
- 2.11 In addition to any new technologies, many of the vehicles operated by the Council also require specifications that differ from commercially available vehicle production. These bespoke vehicles, such as refuse vehicles, can take 6-12months following procurement to build. Any delays in the procurement cycle therefore could impact on service provision.

3 COUNCIL SERVICE PROVISION – FINANCIAL CONSIDERATIONS

- 3.1 Fleet Services discuss and challenge operational services managers to identify fleet savings. All of the vehicles listed in the Strategy have been identified by the managers of the service areas as essential for the operation of these services and equally as important, within revenue funding envelopes to pay back the purchasing costs.
- 3.2 All Council services with fleet requirements have an identified revenue stream that covers the whole life of the vehicles operation. This covers the cost of the repayment of purchase costs, and maintenance and inspection costs incurred by the Fleet Workshop. All relevant costs are calculated over the expected operational life of the vehicle and charged equally over this period to enable services to plan their budgets effectively.

Funding Methods

- 3.3 The Council has four main funding methods available when procuring the fleet, and they are detailed in the table below.

Funding Method	Overview
Direct Purchase from Council Reserves.	<p>The Council would acquire outright ownership of the vehicles at the outset and would make a one off payment to the supplier.</p> <p>The Council would then recover the capital outlay from Services as part of the 'rental' charge for the vehicle.</p> <p>The Council would also have an asset with residual value to support the cost of the next replacement exercise.</p>
Operating Lease	<p>Under an operating lease the Council would pay regular rental payments to the supplier, at the end of the lease agreement the Vehicles would return to the supplier. The Council would not have ownership of the vehicles at any point under an operating lease. The Council would still need to add maintenance costs into any financial assessment as operating leases are normally without maintenance included.</p> <p>It should be noted that estimated residual values for the Operating Lease option are often calculated at a higher value by the lease company than the Council would determine. In addition to this the return conditions placed on the Council are unrealistic for the age and use of the vehicles and previously the Council has incurred significant unbudgeted costs when vehicles are returned.</p>
Finance Lease	<p>Under a Finance Lease the Council would make regular payments to the supplier, the payments would be made up of a Principal repayment element and an interest element. At the end of the lease term the ownership of the Vehicles would be with the Council, with a residual value to off-set future costs</p>
Prudential Borrowing	<p>The Council would acquire outright ownership of the vehicles at the outset and would make a one off payment to the supplier. The Council would then be required to repay the Borrowing over the operational life of the vehicles. Interest rates will be applicable and subject to market fluctuations. This borrowing is repaid from Services as part of the 'rental' charge for the vehicles and residual value would be available to off-set future costs</p>

* Please note that the four funding methods apply to both of the options to govern the fleet replacement programme detailed in Section 4 below.

Service Recharges

- 3.4 Service areas have an allocated revenue budget identified to pay for their transport costs. This budget is used to pay recharges to Fleet Services for the cost of each vehicle. This recharge consists of three elements:
- Procurement recharge
 - Fleet management (including licences, certifications, insurance and taxation etc.)
 - Maintenance recharge.
- 3.5 The three recharge/costs elements are calculated over the whole life of the vehicle for the optimum life of 4, 5, and 8. This allows service and the Council to accurately budget for its fleet requirements.

4 OPTIONS TO GOVERN THE FLEET REPLACEMENT PROGRAMME

- 4.1 It is not a viable option to extend the lifetime of the fleet age profile due to increased reliability and maintenance issues. It would result in increased costs due to increased vehicle downtime, resulting in negative impacts to service provision and an increase in hire replacements. Furthermore, this would result in increased air quality risks as harmful emissions increase with engine wear.

Option 1 – Continuing Fleet Replacements on a Per Report Basis

- 4.2 There is the option of continuing fleet replacements on a, typically annually, per report basis.
- 4.3 However, this option is not recommended as it does not support the Council's medium/longer-term financial strategy and it is a lengthy process that can cause delays in fleet procurement.

Option 2 – Adopting the Proposed Fleet Replacement Strategy

- 4.4 An updated proposed process for the Fleet Replacement Programme is detailed in full in the Strategy (**Appendix 1**). This is the recommended option.
- 4.5 It proposes the separation of the up-front financial cost of procurement from the need to confirm and justify the requirement to replace vehicles. This simplified process assists both Fleet Services and Finance through greater efficiency.
- 4.6 Fleet Services will instead provide Finance with the Master Fleet lists by service area (attached as appendices to the Strategy), that identify the vehicles that require replacement in that specific year, together with estimated replacement costs.
- 4.7 By having a 7-year replacement strategy in place, the Council can include fleet requirements in its medium term financial plans to provide the most cost effective procurement.
- 4.8 Fleet Services will provide a list to each service area of the vehicles that require replacing, complete with an estimate of the annual recharge for each vehicle. Service area managers will be required to confirm their requirements and the availability of revenue funding to support the replacement.
- 4.9 To support the fleet replacement process and to ensure due diligence, Director Approval Reports (requiring authorisation from the Director of the service) would be submitted to the Director of Place and the Director of Finance to authorise the replacement process to begin.
- 4.10 The replacement strategy will receive an annual review during fleet procurement activities, prior to replacement authorisation reports being submitted, to ensure all fleet requirements are met.
- 4.11 If additional fleet vehicles are required due to service demand, business cases will be presented to the Strategic Capital Monitoring Pane for approval.
- 4.12 When owned vehicles come to the end of their operational life, they will be disposed of via auction to allow fair competition to the vehicles and to ensure the best price is obtained. Leased or hired vehicles will be handed back to the lease company at the end of their lease (subject to any agreed extension periods), and any end of lease charges will be negotiated to minimise the cost to the Council.

5. RISK MANAGEMENT

- 5.1 Fleet Services and Finance have identified that the Fleet Replacement process can be made more efficient and support the medium-term financial requirement on the Council's budget.

Keeping to the current system, on a per report basis, would not realise these efficiencies and could potentially delay the procurement of fleet vehicles identified for replacement.

5.2 There are no identifiable risks presented by adopting the process in Option 2, detailed in full in the Strategy (**Appendix 1**)

5.3 However, there are risks in not replacing fleet vehicles at their recommended timescale and they are summarised below:

- Any extensions to the fleet age profile would put additional burden on maintenance provision; this would still result in increased vehicle down time and increased costs.
- As vehicles age, harmful emissions increase with engine wear further increasing air quality risks.
- Additional financial provision for short term replacement hires would be required.
- Service delivery for essential services would be negatively affected due to unreliability of aging fleet.

5.4 There are also risks involved in purchasing fleet replacements given the costs involved, and this is dependent on the procurement method used and whether future service provision may reduce overall vehicle demand. A summary of these risks and mitigating actions is provided in the table below:

Risk	Impact	Mitigating Actions	Outcome
Price increases	Additional Costs	Procurement processes/Competitive Tendering/use of Frameworks	Subject to market forces
Reduction in Services	Possible fleet surplus/reducing impact as fleet ages	New Fleet – higher residual value/Long term savings on fleet costs	Risk minimised
Stopping of Services	Possible fleet surplus/reducing impact as fleet ages	New Fleet – higher residual value/Long term savings on fleet costs	Risk minimised
Service Provided by third party	Possible fleet surplus/reducing impact as fleet ages	Include in arrangements with provider to utilise Council Fleet	Risk minimised
Residual values	Cost shortfall	Subject to market forces/Vehicle managed and maintained Condition reviews. Utilisation of best disposal options.	Still provides Council with cost effective option for fleet replacement
Delivery Times	Service delivery / safety	Early decision	Urgent action required

5.5 If further service reviews identify a need to reduce the overall vehicle demand, and vehicles are returned before the end of the borrowing/lease period, the service area may be subject to early return costs. These costs will need to be met by individual services and calculated using the receipts of the sale to offset any outstanding borrowing, the short fall (if any) will be recharged to the service returning the vehicle.

5.6 The Council also needs to consider its current plans for the delivery of operational services. To protect the Council, should any services be provided by an external supplier, provision should be made with the supplier to utilise any Council owned fleet to deliver services.

6 CONCLUSION

- 6.1 The Council operates a large fleet enabling the provision of Council services. The Council has a legislative duty to operate the fleet in a legal and safe manner. The proposed Fleet Replacement Strategy will ensure that the fleet replacement process continues to be compliant, efficient and that the fleet requirements of the Council are met.
- 6.2 Fleet Services and Finance have identified that the current fleet replacement process, made on a per report basis, can be made more efficient. This is by separating the up-front financial cost of procurement from the need to confirm and justify the requirement to replace vehicles.
- 6.3 The Strategy will allow for more targeted reporting for fleet replacement authorisations and support the Council's medium/longer-term financial planning.

7 RECOMMENDATIONS

- 7.1 Are as set out at the front of the report.