

Report To:	EXECUTIVE CABINET
Date:	25 September 2019
Executive Member/Reporting Officer:	Councillor Allison Gwynne – Neighbourhoods, Community Safety and Environment Emma Varnam – Assistant Director, Operations and Neighbourhoods
Subject:	COUNCIL FLEET REPLACEMENT PROGRAMME 2019/20
Report Summary:	<p>The Council currently operates a fleet of 164 vehicles of varying types from vans, gritting lorries, to refuse vehicles, providing numerous services to the residents of the Borough.</p> <p>Reports for the replacement of the Fleet 2012, 2015, 2016, 2017 and 2018 have been approved by Executive Cabinet. There are now 21 vehicles that require replacing under the Fleet Replacement Programme.</p> <p>It is now essential to the continued operation of services that the 21 vehicles are replaced in 2019/2020.</p> <p>This report sets out the business case for the replacement of these vehicles and identifies the requirement for the Council to have in place a Strategic Fleet Replacement Strategy to ensure that the Council can continue to deliver operational services directly.</p>
Recommendations:	<p>To support and recommend Option 2, as detailed below:</p> <ol style="list-style-type: none"> 1 The authorisation for Transport Services to procure 21 vehicles identified in the report via a competitive tendering process, the process to be undertaken by the Councils procurement partner STAR, and recharge service areas an annual rental to cover purchase, borrowing and maintenance costs covering the periods of 5 and 8 years. The vehicle due replacement are: <ul style="list-style-type: none"> • 9 x Refuse Collection Vehicles. • 7 x Compact Road Sweepers • 1 x 26T Hooklift Gritter • 1 x JCB Telehandler • 3 x Ride on Lawn Mowers 2 Based upon the results of the financial appraisal it is recommended that approval is granted for the purchase of the 21 vehicles detailed in the main body of the report to be procured via borrowing. 3 That the additional costs of all electric bin lifts for the 9 refuse vehicles be approved. 4 That all procurement costs are paid back via the vehicles rentals by services revenue budgets.
Links to Community Strategy:	The purchase of the vehicles will enable the Council to continue to provide its services to the Citizens of the Borough
Policy Implications:	The purchase 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 and the proposed procurement option supports the Council's green agenda.

Financial Implications:
**(Authorised By Section 151
Officer)**

The preferred option of this business case is Option 2, the procurement of 21 vehicles at a cost of £2.406m funded by borrowing.

Financial Options Appraisal of the proposed procurement of the 21 Vehicles

Set out in Table 3 of this report is a financial options appraisal of the estimated present values of the 21 vehicles, comparing operating lease, finance lease and borrowing. The use of borrowing represents the best value option for all the new vehicles, apart from the 3 Ride on Mowers. An operating lease would appear to be the best value option for the Mowers; however, ownership gives the Council's Transport service flexibility. Taking into consideration flexibility and the very small cost difference it is recommended that the 21 vehicles be financed by borrowing, and repaid through the service revenue budgets

Cost to the Service

Set out in Appendix 1 is the cost of the existing 21 vehicles by, service area, compared to the cost of the proposed replacements vehicles. This shows an increase in costs compared to current charges.

There is an increase in annual charges to Waste Services of £15k per annum which will be offset by an annual saving in fuel costs as set out in section 2.18 of this report.

There is revenue budget provision within Operations and Greenspace for the increase in annual costs of £140k which is currently not being spent because existing vehicles were fully paid for in previous years.

The increase in cost of £43k for Engineering Operations will be recovered through the trading account activity in that area.

Legal Implications:
**(Authorised By The Borough
Solicitor)**

The Council needs to develop a Fleet Replacement Strategy to ensure we address our service delivery needs whilst effectively planning the budget needs to replace the vehicles on a cyclical basis.

Risk Management:

Set out in the report in Tables 1 & 2.

Access to Information:

The background papers can be obtained from the authors of the report:

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1. EXECUTIVE SUMMARY

Proposed Investment

- 1.1 The procurement by Transport Services of 21 vehicles identified in the report via a competitive tendering process.
- 1.2 The process to be undertaken by the Council's procurement partner STAR, and to recharge service areas an annual rental to cover purchase, borrowing/lease and maintenance costs covering the periods of 5 and 8 years.
- 1.3 The vehicles due replacement are:
 - 9 x Refuse Collection Vehicles.
 - 7 x Compact Road Sweepers
 - 1 x 26T Hooklift Gritter
 - 1 x JCB Telehandler
 - 3 x Ride on Lawn Mowers

Options for Investment

- 1.4 Two options including a "do nothing" option (Option 1) have been explored. Option 2 is the preferred option and is supported by a separate financial appraisal in Table 3.
- 1.5 Option 1 will result in the Council being unable to deliver essential services.

Project Delivery

- 1.6 The delivery of the project will be managed through the Council's arrangements with STAR and Transport Services.

Financial Investment Requirement

- 1.7 Option 2 is the preferred option and will require an initial capital investment of £2.406M plus financing costs.

Project Management and Monitoring

- 1.8 The project management will be undertaken by the Council's Transport Services and STAR and is a procurement based exercise.

Conclusion

- 1.9 Option 2 is the preferred option with procurement taking place via borrowing arrangements. The replacement costs will be £2.406M plus financing costs.

2. PROPOSED INVESTMENT

Background and Existing Arrangements

Council Fleet

- 2.1 The Council operates a large and varied fleet of vehicles and equipment to enable it to provide core services to the citizens of the Borough. Since 2011 the Transport Fleet has reduced by 25.4% from 220 vehicles to 164. The Fleet is made up of vehicles of mixed ages and types, on an agreed programme of annual replacements.
- 2.2 Reports for the replacement of the Fleet 2012, 2015, 2016, 2017 and 2018 have previously been approved.
- 2.3 Of the 164 vehicles, 21 are in urgent need of replacement due to them coming to the end of their effective operational life.

2.4 This report details the business case for the replacement of the 21 Fleet vehicles to support the delivery of Council services and in the future these will be included in the strategic overview identified below.

2.5 It is not practical or advisable to extend the period of ownership of these vehicles further due to increased maintenance, a decrease in reliability that would result in increased operational downtime, increased costs and safety issues.

Council Service Provision – Strategic Fleet Replacement Strategy

2.6 In the identification of the Council's Fleet requirements consideration must be given to many factors. Fleet vehicles support the provision of both direct operational services to the public (for example, refuse collection vehicles) and also support services (for example, vans for IT support to out-stations).

2.7 Transport Services discuss and challenge operational services managers to identify Fleet savings. All of the vehicles listed for replacement in this report have been identified by the managers of the service areas as essential for the operation of these services and, equally as important, within funding envelopes to pay back any borrowing or Capital expenditure.

2.8 Moving forward it is essential that the Council has a strategic framework for its continued Fleet Replacement Programme.

2.9 A Strategic Fleet Replacement Strategy is currently being prepared for approval to ensure that continued delivery of Council Services is supported.

Council Fleet and Air Quality Considerations

2.10 In light of the government's statement to ban the sale of diesel cars from 2040 and the current failings of UK cities to meet its air quality targets, it is prudent for the Council to consider this in its future Fleet Replacement Programme.

2.11 Furthermore, the Greater Manchester Combined Authority (GMCA) together with the GM Mayor have produced an Air Quality Action Plan as part of the GM Strategy in order to meet Air Quality targets.

2.12 The current Fleet has an average age of almost 8 years and operates on Euro 3, 4 and 5 type engines. Whilst there is currently no provision in the market place for Ultra Low Emission Vehicles (ULEV) for the municipal sector; all vehicles procured will be of the latest EU standard for emissions (Euro 6).

2.13 The 9 Refuse Collection Vehicles will be fitted with full all electric bin lifting equipment that will reduce fuel consumption by approximately 9%, therefore reducing emissions, and also provide benefits of reduced noise pollution.

2.14 A refuse vehicle achieves on average an annual fuel usage of 12,000 litres per year at an average cost of 0.96 pence per litre.

2.15 This equates to a saving of 1,080 litres per annum which = £1,036.80 per annum.

2.16 The additional costs of the electric lifts over base hydraulic lifts are circa £6,500 per vehicle.

2.17 Over the vehicles 8 year life a fuel cost saving of £8,294.40 can be anticipated.

2.18 Fuel Savings over 8 years = £8294.40, minus the additional purchase costs of £6,500, giving an estimated saving of £1,794.40 per vehicle.

Carbon savings

- 2.19 Fuel savings over 8 years = 8,640 litres = carbon reduction of 25.06 tonnes x 9 vehicles equating to a potential carbon reduction 225.504 tonnes over the 8 year life.
- 2.20 Following a successful trial demonstration, the Head of Waste Services has agreed that the use of the all-electric bin-lifting equipment is the correct option going forward.

3. OPTIONS FOR INVESTMENT

Option 1: Do Nothing Summary

- 3.1 The Council would continue with the existing fleet but these vehicles would face increasing breakdowns, down-time and reduced service delivery at increased cost.

Benefits

- 3.2 There are no additional capital costs with this option, but this would result in additional breakdowns, loss of service delivery, additional hire costs and increased maintenance costs. There will also be the impact of the workforce being stood down and the subsequent reputational damage.

Risks

- 3.3 Any extensions to the Fleet age profile would put additional burden on maintenance provision; this would still result in increased vehicle down time.
- 3.4 As vehicles age harmful emissions increase with engine wear, further increasing air quality risks.
- 3.5 Additional financial provision for short term replacement would be required.
- 3.6 As vehicle lives are extended and worked harder, there will be an increase in breakdowns and additional off-road time for maintenance.
- 3.7 Vehicle down-time results in loss of productivity and efficiency of the workforce.
- 3.8 The increased vehicle downtime would inevitably lead to an increase in the use of short term rental vehicles to supplement the increased vehicle downtime. This would come at a significant financial cost.
- 3.9 Risks associated with this option are listed in Table 1 below, together with mitigating actions.

Table 1: Option 1 Risk Summary

Not Replacing Fleet – “Do Nothing”			
Risk	Impact	Mitigating Actions	Outcome
Impact on Service Delivery	Downtime / inefficiencies	Replace Fleet	New Fleet
Impact on Air Quality	Increase in harmful emissions	Replace engines/ or Fleet item	New Fleet
All vehicles require replacement next year	Cost/safety	Replace Fleet	New Fleet
Compliance with Procurement Standing orders	Increased use of Short term hire vehicles to support vehicle downtime due to mechanical failure or routine maintenance	Support fleet under short term hire framework contract	Temporary solution only short term hire can be used from 1 day to 1 year.
Increased costs: Servicing / Repairs Downtime Replacement hires Staff time	Increased costs: Servicing / Repairs Downtime Replacement hires Staff time	Replace Fleet	New Fleet

Option 2: Replacement of the Fleet Summary

3.10 The Council replaces the 21 vehicles as per its replacement programme

Benefits

3.11 The Council will continue to be in a position to deliver its essential services without being reliant on inefficient fleet arrangements and the Council will also be in a stronger position to meet its clean air obligations.

Costs

3.12 The investment required to replace the fleet is estimated at £2.406M. The financial implications and the preferred procurement methods are detailed below in Section 4.

Risks

3.13 Risks associated with this option are listed in Table 2 below, together with mitigating actions.

Table 2: Option 2 Risk Summary

Replacing Fleet			
Risk	Impact	Mitigating Actions	Outcome
Price increases	Additional Costs	Procurement processes	Subject to market forces
Reduction in Services	Possible Fleet surplus	New Fleet – higher residual value	Risk minimised
Stopping of Services	Possible Fleet surplus	New Fleet – higher residual value	Risk minimised
Service Provided by third party	Possible Fleet surplus	Include in arrangements with provider to utilise Council Fleet	Risk minimised
Residual values	Cost shortfall	Subject to market forces	Still provides Council with cost effective option for fleet replacement
Delivery Times	Service delivery / safety	Early decision	Urgent action required

4 FINANCIAL CONSIDERATIONS

Historical Perspective

- 4.1 Consideration in the past for the makeup of the Council's Fleet has been based on the requirements of service areas.
- 4.2 The Council recently moved away from the more expensive option of lease hire to direct purchase via borrowing, resulting in significant savings to the Council.
- 4.3 However, consideration must also be given to lease arrangements and this task was undertaken as part of the financial modelling exercise.

Estimated Replacement Costs for Identified Vehicles

- 4.4 To replace the vehicles identified in **Appendix 1**, it is expected to cost the authority as per the breakdown below:

- Purchase costs 21 vehicles **= £2,406,000**
- **Plus borrowing costs** **= £238,322**
- **Total Costs** **= £2,644,322**

- 4.5 The purchase costs are taken from the previous procurement in 2016/17 and manufacturer quotations outside of a competitive tendering exercise.
- 4.6 It is anticipated that a reduction on these prices could be achieved through the tender process. However, the opposite must also be considered as manufacturing costs increase.
- 4.7 It is anticipated based on the prices above (as best as can be determined outside of a formal tender) that the actual cost to the Council will be as per Table 3.
- 4.8 The vehicles will have an operational life of 8 years, with the exception of the Compact Road Sweepers and Ride on Mowers, which have an anticipated life of 5 years, and costing information has been applied to these vehicles on this basis. The borrowing / lease periods are designed to match operational lives of the vehicles and equipment.

Procurement Options

4.9 An exercise needs to be completed with the Council's Treasury Management Team and financial advisors, LINK Asset Services, to identify the most advantageous financial options for the procurement of the 21 Fleet items. Three different methods were explored as options available to the Council; the options were as follows:

- **Operating Lease** – Under an operating lease the Council would pay regular rental payments to the supplier, and 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.
- **Finance Lease** – 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.
- **Borrowing** – 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 operation life of the vehicles. Estimates at the time of writing this report indicate that interest rates of 1.24% and 1.39% will be applicable (subject to market fluctuations) over 5 and 8 years respectively.

4.10 Table 3, below, shows a comparison of the financial options appraisal

Table 3: Financial Options

Vehicle Type	Number Required	Optimum Operational Life	Estimated Procurement Costs	Estimated Present Value of all Cash Flows*		
				Operating Lease	Finance Lease	Borrowing
		Years	£'000	£'000	£'000	£'000
Dennis Olympus 26 Ton Refuse Collection vehicle	9	8	1,575	1,516	1,531	1,450
Schmidt 4.5 Ton Compact Road / Pavement Sweeper	7	5	525	499	492	473
Daf CF 75 26 Ton Hooklift Tipper Gritter	1	8	185	178	171	162
JCB Telehandler / Loader	1	8	52	46	48	45
Ransome HR300 Ride on Mower	3	5	69	57	61	59
Total Procurement Costs			2,406	2,296	2,303	2,189

**Present Value is the total value of all associated cash flows with future years discounted in line with the HM Treasury Green Book. It includes consideration for resale value for the finance lease and borrowing options.*

4.11 The use of borrowing represents the best value option for all the new vehicles, apart from the three Ride on Mowers.

- 4.12 With a £2,000 lower cost, an operating lease would appear to be the best value option for the Mowers. However ownership gives the Council's Transport Service flexibility. Taking into consideration flexibility and cost difference, borrowing needs to be considered as an alternative option.
- 4.13 Based on the results of the financial appraisal and taking into consideration the flexibility of ownership, it is recommended that the 21 vehicles be financed by borrowing.

Cost to Services

- 4.14 The 21 vehicles listed in this report support the operations as shown in **Appendix 1**.
- 4.15 The estimated annual cost to Services is based on purchase costs, plus maintenance charges and borrowing costs. The details are included in **Appendix 1**.
- 4.16 There is budget provision within Waste Services and Operations and Greenspace for the increase in annual costs. The increase in cost for Engineering Operations will be managed through the trading account in that area.

5. PROJECT DETAILS

- 5.1 This project is a procurement lead specification and delivery procurement exercise, with a Project Plan included below in Table 4.

Table 4 – Timescales & Milestones

Preparation of documents including specification	30 days	August 2019
Invitation to suppliers to submit bid	30 days	November 2019
Removal of seal	2 days	January 2020
Evaluation exercise	14 days	January 2020
Award and voluntary standstill period	10 days	January 2020
Meet with successful suppliers	7 days +	February 2020
Delivery of vehicles	Various per vehicle	Subject to build times

- 5.2 The project management and project delivery will be undertaken by the Council's Transport Services and STAR and is a procurement based exercise

6. CONCLUSION

- 6.1 Option 2 is the preferred option with procurement of the 21 fleet items taking place via borrowing and lease arrangements, with the capital investment costs estimated at £2.406M.

7. RECOMMENDATIONS

- 7.1 As set out at the front of the report.

APPENDIX 1: COST TO SERVICES

Vehicle Type	Number	Optimum Operational Life	Council Service	Estimated Purchase Cost	Borrowing Cost 8 years @1.39% 5 years @1.24%	Total Estimated Cost	New Vehicle Annual Core Hire Fee	Current Vehicle Annual Core Hire Fee	Increased / (Reduced) Charge
		Years		£	£	£	£	£	£
Dennis Olympus 26 Ton Refuse Collection vehicle	9	8	Waste Services	1,575,000	175,140	1,750,140	432,396	417,391	15,005
Schmidt 4.5 Ton Compact Road / Pavement Sweeper	7	5	*Operations and Greenspace / Street Cleansing	525,000	32,550	557,550	200,879	73,228	127,651
Daf CF 75 26 Ton Hooklift Tipper Gritter	1	8	Engineering Operations	185,000	20,572	205,572	43,581	12,029	31,552
JCB Telehandler / Loader	1	8	Engineering Operations	52,000	5,782	57,782	16,624	5,254	11,370
Ransome HR300 Ride on Mower	3	5	Operations and Greenspace. Grounds Maintenance	69,000	4,278	73,278	24,024	11,135	12,889
Total				2,406,000	238,322	2,644,322	717,504	519,037	198,467

* Operations and Greenspace / Street Cleansing – Currently maintenance only – no replacement cost charges