

Finance and Resources Committee

10.00am, Thursday, 3 November 2016

Fleet Replacement Programme 2016/17 - Approval of Prudential Borrowing

Item number	7.15
Report number	
Executive/routine	Executive
Wards	All Wards

Executive Summary

As part of the on-going Fleet Review a number of vehicles have been identified and prioritised for replacement or renewal. There are two options for vehicle finance; these are capital purchase financed by prudential borrowing, or operating lease. The decision on how to fund the vehicle is taken after the vehicle is purchased based on an options appraisal carried out by Treasury.

This report seeks approval in principle that the required expenditure is funded through prudential borrowing supported by Place, should Treasury assessment deem this to be the financing method representing best value for money to the Council.

Links

Coalition Pledges	P44 and P49
Council Priorities	CP08 and CP09
Single Outcome Agreement	SO4

Fleet Replacement Programme 2016/17 - Approval of Prudential Borrowing

1. Recommendations

- 1.1 To note the contents of this report and remit to Council for approval, the principle that the expenditure outlined below be funded through prudential borrowing supported by Place, should Treasury assessment deem this to be the financing method representing best value; and
- 1.2 To agree in principle, for these acquisitions to be made without additional reporting to the Council, however to still be controlled under the rules set out in the Council's Contract Standing Orders.

2. Background

- 2.1 Fleet and Workshop Services are working in partnership with the Commercial Excellence programme to carry out a Fleet Review. The review has three main work-streams:
 - 2.1.1 Fleet cost modelling - developing a fleet cost model that simplifies charges and enables the setting of budgets for transparency, accountability and ownership. This will require all fleet costs to be brought above the line and for charging and budgets to accurately reflect whole life costs, including residual values, through a fixed price for the life of the vehicle.
 - 2.1.2 Demand management – reducing the overall demand for existing and new vehicles through evidence based ‘challenge meetings’ with service managers. The challenge meetings will also identify future vehicles replacement needs which will then be costed and allocated to financial years for purchasing, in line with a procurement plan (see below) and budget allocations. Surplus vehicles will be either ‘off-hired’ or sold and the associated spend redirected to support investment in new fleet or taken as savings.
 - 2.1.3 Effective supply side management – this will involve batching the required vehicles into generic vehicle types in order to maximise buying power and consolidate suppliers (this will also deliver benefits in terms of managing the supply of spares and parts for on-going maintenance). Based on firmed up demand contracts or frameworks will be evaluated to identify those which

deliver the best value for money. Consideration will also be given to alternatives to direct ownership such as lease or hire where appropriate. Procurement of new vehicles will be overseen by a Fleet Procurement Board to ensure that a consistent, 'one Council approach' is being applied that and that other strategic objectives such as reduction in tail pipe emissions are also addressed.

- 2.2 One of the outputs from this review is a revised fully costed five year vehicle replacement programme and associated procurement plan. This work should be completed before the end of the current financial year
- 2.3 There are two options for vehicle finance; these are capital purchase financed by prudential borrowing, or operating lease. The decision on how to fund the vehicle is taken after the vehicle is purchased based on an options appraisal carried out by Treasury.
- 2.4 This report is to seek approval in principle that the expenditure outlined below be funded through prudential borrowing supported by Place, should Treasury assessment deem this to be the financing method representing best value for money to the Council.

3. Main report

- 3.1 When the scope of the proposed vehicle replacement programme has been completed, Fleet Services will present a report to Council on the capital spend required for the vehicle programme, and an estimate of each vehicle lot, cost and estimated delivery. This will be revised and updated each year, and presented to Council to report progress, including seeking approval for the following year's spending plans.
- 3.2 The accurate planning of procurement is very difficult as a number of factors can influence the eventual point of delivery and payment of a vehicle. The biggest effect is from delivery lead times on the specialist types of vehicles and equipment that the Council purchases.
- 3.3 As an interim measure, a small number of discrete vehicle groups are identified as required now to replace vehicles that are no longer fit for purpose or on hire to help realise service efficiencies and improvements. These are: - Food Waste Vehicles, Passenger Transport Buses, Community Recycling Centre (CRC) vehicles, tractors and Litter Presses.
- 3.4 Tractors - The three tractors used for beach cleaning activity, as well as other duties, have suffered excessive corrosion due to the operation near and in salt water while of the two compact tractors used by grounds maintenance one has been de-fleeted and while the other has become uneconomic to repair due a transmission failure. As a result of this procurement the number of tractors will reduce from 5 to 3.

- 3.5 Food Waste Vehicles - The current vehicles are not able to cope with the increasing tonnage of food waste that is being collected and are also "spot" hired. To meet the requirement Waste and Cleansing Services have specified a vehicle with larger capacity that will improve the service and allow them to reduce the fleet by one vehicle.
- 3.6 Passenger Transport Buses - Many of the passenger transport buses are past their optimal life cycle age and do not comply with the standards required for carrying wheelchair passengers and this is now affecting service delivery. The lead times of these vehicles is such that they cannot be left until the end of the review to begin the procurement process. In this case Passenger Operations management have chosen to only replace half of the required number, and are confident that these vehicles will be needed as part of the future requirement of the service.
- 3.7 CRC Site equipment - The equipment at the Community Recycling Centres (CRC) sites requires to be replaced. Aging fleet items and expensive "spot" hires are meeting the requirement presently, with the correct choice of vehicle a significant improvement in the service can be made, while saving the Council money.
- 3.8 Litter Presses - These vehicles operate mainly around the city centre, and the current operation is made up of 3 old fleet units, and 3 "spot" hires. The fleet units are 11 years old and are presenting challenges in that they are not wholly suitable for the service, and they are expensive to maintain, as well as difficult to source parts for. Purchase of new fleet units would allow the service to reduce its fleet to 5 vehicles, and would also allow this service to operate in partnership with waste collections thereby realising an efficiency in collection routes.
- 3.9 These procurements will be completed independently of each other, and will have different timelines.
- 3.10 The prices quoted within this document are estimates as the final purchase price cannot be verified until the final specification has been exposed to competition and the preferred bidder of the procurement exercise determined.
- 3.11 The table below shows the estimated cost of each of these proposed vehicle purchases. The expected delivery is the most likely date, based on current experience of lead times, however until an order is placed these cannot be confirmed.

Project Name	No Vehicles	Estimated Total Cost	Expected Delivery
Tractors	3	£92,000	July 2016
Food Waste Vehicles	8	£778,000	March 2017
Passenger Buses	12	£960,000	March 2017

CRC Site equipment	3	£345,000	February 2017
Litter Presses	5	£460,000	March 2017
Total	31	2,635,000	

4. Measures of success

- 4.1 Council is able to replace vehicles as required, and that the Council is aware of planned expenditure.
- 4.2 Each of these procurements will have their own individual measures of success, but, in general terms front line council services will benefit from reduced vehicle failure and reliance on external hires, and better utilisation.

5. Financial impact

- 5.1 A revenue budget is available and the final method of financing the vehicles will be decided after the vehicles have been purchased. Treasury will carry out a financial options appraisal to identify the method of financing that will deliver best value for the Council
- 5.2 When the vehicles are purchased, options that will be considered include (i) Operating Lease through sale and lease back mechanism and (ii) Public Works Loan Board (Prudential)
- 5.3 This report outlines expenditure of £2.635m that, following Treasury assessment, could potentially be funded through capital expenditure. If this became the case and it were to be funded fully by borrowing, the overall loan charges associated with this expenditure over an average asset life of 6 years would be a principal amount of £2.635m and interest of £0.221m, resulting in a total cost of £2.856m based on a projected Prudential Works Loan Board rate of 2% The annual loan charges would be £0.476m.
- 5.4 It should be noted that the Council's Capital Investment Programme is funded through a combination of General Capital Grant from the Scottish Government, developers and third party contributions, capital receipts and borrowing. The borrowing required is carried out in line with the Council's approved Treasury Management Strategy and is provided for on an overall programme basis rather than for individual capital projects. Following instruction from Members, notional loan charge estimates have been provided above, which it should be noted are based on the assumption of borrowing in full for this capital project.
- 5.5 Should the expenditure outlined in this report be funded through capital, provision for funding the associated loan charges will be met from an identified revenue budget within the Place directorate.

6. Risk, policy, compliance and governance impact

6.1 The following risks have been identified as potential issues to the Council::

Risk	Mitigating Action
Savings targets not made due to late delivery of vehicles	Fleet Service, with Commercial and Procurement Services are able manage procurement process, and minimise delays.
Service delivery affected by failed fleet units.	Fleet maintenance will endeavour to keep these vehicles operational, however should a vehicle become uneconomic to repair, a spot hire may be sourced as a short term solution. This will mean extra expense to the Council.

6.2 The expenditure of these procurements will be managed in accordance with procurement rules, and final sign off will be at Director level, and a separate report produced.

6.3 To fully comply with both Finance Rules / Regulations and Contract Standing Orders all vehicle expenditure must be subject to Council scrutiny. As a result Fleet Services plan to present the Council with a report at the start of each financial year with the planned expenditure for that year, and the expenditure incurred to date.

7. Equalities impact

7.1 The procurement of 12 new passenger transport buses will improve wheelchair accessibility, provide greater flexibility in meeting the differing needs of passenger transport customers and provide improved passenger comfort.

7.2 There are no other direct equalities impacts arising from this report.

8. Sustainability impact

8.1 The new vehicles will be compliant with a higher environmental standard and contribute to improved air quality as a consequence of reduced emissions particularly of Nitrogen Oxides (NOX) and particulate matter (PM's).

9. Consultation and engagement

Fleet and Workshop Services have engaged with service areas to identify their fleet replacement requirements. Finance and Commercial and Procurement Services have also been consulted.

10. Background reading/ external references

None

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Director of Place

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11. Links

Coalition pledges	P44 – Prioritise keeping our streets clean and attractive P49 – Continue to increase recycling levels across the City and reducing the proportion of waste going to landfill
Council priorities	CP8 - A vibrant, sustainable economy CP9 - An attractive city
Single Outcome Agreement	SO4 – Edinburgh’s communities are safer and have improved physical and social fabric.