7. FLEET MANAGEMENT - VEHICLE PROCUREMENT (PN)

1. Purpose of the report

To gain approval for the replacement of the Authority's vehicles, which will be due for replacement in 2019.

Key Issues

- Selection of appropriate vehicles to replace obsolete vehicles in line with the approved Capital Strategy
- Balancing the environmental impact of the new manufacture, operation and end of life disposal of vehicles with the operational need for vehicles to deliver services.
- Financing the replacements
- Leasing vs buying decisions

2. Recommendations(s)

1. **That Members approve replacement of obsolete vehicles up to a maximum cost of £450,000 financed from borrowing with the vehicle mix and type of vehicles to be delegated to the Director of Commercial Development & Engagement and the Chief Finance Officer.**

How does this contribute to our policies and legal obligations?

3. The Authority operates a fleet of 36 vehicles to achieve its purposes and one of the key principles of the approved Capital Strategy is that priority should be given to the replacement of worn out assets. Approximately 23 vehicles are due for replacement and are covered by this report, although the retention of some older vehicles may lead to deferred purchase of a replacement vehicle, but it may also increase (by one or two only) the total number of vehicles being operated providing this can be accommodated within the current budget and is justified by operational requirements.

Background Information

4. In 2008 the (then) Services Committee approved borrowing for vehicle purchases up to £500,000 for replacement of the vehicle fleet of 34 vehicles. (Minute 22/08). The borrowing was for a period of 7 years to reflect the estimated vehicle asset life, after which time the debt would be repaid and the next purchase cycle could be considered. The borrowing cost, financed from within service budgets, was £67,000 p.a., and at the end of the vehicle life the residual values remaining on sale of the vehicles (estimated at 22% of purchase price) paid off the final debt outstanding. In actual service the vehicles have been operated for a full 9 years and the final debt payments were made in 2017/18, with two benefits, firstly the debt payments in 2018/19 are not required, with commensurate one-off savings, and secondly any residual values achieved will be a windfall capital sum rather than required to offset debt. There is a higher maintenance cost to running older vehicles which will offset some of the savings.

5. Environmental considerations in 2008 led to the purchase of a mix of vehicles, predominantly diesel powered, taking account of fuel economy and CO2 emissions, with particulate pollution being less of a concern in rural areas (acknowledging also that there was less focus on particulate pollution at the time). The previous fleet had experimented significantly with LPG fuel with our own LPG supply, but operational running problems and reliability meant the vehicles were mainly run on petrol towards the end of their lives.

Smaller pool vehicles, vans and lighter 4WD vehicles with better fuel consumption were also introduced into the mix.

6. Purchase of our own vehicles, using our borrowing powers, rather than leasing, was considered to be more flexible and more cost effective, mainly because it avoided end of lease damage rectification costs, and also allowed the Authority to consider using vehicles for longer, offsetting the environmental cost of manufacture.

7. The vehicle fleet will be 10 years old in 2019 and it is not cost effective to run the majority of the vehicle fleet on this basis as our services depend on the use of reliable, fit for purpose vehicles. Some of the existing vehicles (for example the Landrovers) are very capable and not easily replaced so a small number may be retained, within existing budgetary provision, to enhance / maintain capability. In addition, where vehicles are relatively low in mileage for their age and have proved to be reliable, it is environmentally sensible to consider retention for a longer period where practical. The result of these judgements will affect the precise number of vehicles replaced, which may result in a lower cost, but approval is sought for replacing all 23 vehicles so their replacement, when eventually necessary, is authorised by this report.

8. One of the five key principles in the Capital Strategy approved by the Authority in 2015 (Minute 124/15) stated that "the principle of sustainability requires that the ability to replace existing assets when they have reached the end of their useful life should be given priority, subject to them continuing to have a high strategic fit with the Authority's purposes; these replacement costs ideally need to be available within existing budgetary provision and not be dependent on uncertain additional funds". Baseline budgets have the required debt repayment sums available to allow for the replacement of vehicles consistent with this principle. Appendix 2 of the Capital Programme included the principle of borrowing £400,000 for vehicle replacements, subject to further specific approval (i.e. this report.)

Proposals

Selection of Appropriate Vehicles and environmental impact

9. Officers have considered, under the new divisional structures, what the service requirements for vehicles should be, taking account of changes in ways of working, and health and safety requirements for suitable vehicles to ensure safe operation of certain activities. This is defined in terms of whether cars or vans are required, whether 4 wheel drive is necessary, and what load carrying capabilities, both within the vehicle, and towing, are required. Appendix 1 shows the possible breakdown of the replacement fleet, for which delegated authority is sought by officers in order to purchase the vehicles when decisions are finalised.

10. Vehicles are pooled and available for all officers to use, and are not dedicated to named drivers.

11. Before purchase, estimates of mileage to be undertaken will be carried out to ensure that there is not a cost effective alternative (e.g. where a specialist vehicle is not required, and mileage is low, it may be more cost effective to rely on the "grey" fleet i.e. staff operating their own vehicles and being reimbursed for mileage under the current Travel & Subsistence scheme).

12. In 2008 full electric vehicles were not commercially available at sensible cost and capability, and hybrid vehicles were considered to be complex and did not necessarily have strong environmental performance taking account of all factors including manufacture and disposal costs. Currently the market for these vehicles is much more developed and the Resource Management Meeting under delegated powers has also

approved bringing a full electric vehicle onto the pool car fleet, which is anticipated to be purchased and operated in 2019. Officers are engaging the Energy Trust to advise on what vehicles, given the specifications required, could be seriously considered to improve on the environmental performance of the vehicle fleet, so it is hoped that some vehicles specified in the Appendix 1 may, subject to tests and further consideration, be substituted with low emission vehicles, based on their recommendations.

13. Depending on these decisions, officers are also investigating the charging infrastructure at certain bases to support electric vehicle recharging.

Financing the replacements and Leasing vs Buying

14. The Capital Strategy has approved the principle of borrowing and outright purchase of vehicles, which has allowed greater flexibility in using vehicles for longer lives and avoiding high end of lease rectification costs. It may be that for some vehicles leasing may be the preferred or only option (especially for low emission vehicles). In this case Members are asked to delegate this decision to officers, with officers taking account of the capital value of the leased vehicle in order to add it into the cost ceiling in Recommendation 1.

15. There are changes in the accounting rules for leases from April 2019 which may require leased vehicles to be treated as if they are purchased anyway in the Authority's accounting records.

16. The Authority is able to use central government procurement contracts for Vehicle purchasing or leasing, avoiding the need to tender separately, and ensuring purchasing is at the best available prices to the public sector.

Are there any corporate implications members should be concerned about?

Financial:

17. The replacement of 23 vehicles of different types at an average cost of £18,500 would be in the region of £450,000, with an annual debt repayment for seven years of approximately £58,000, based on financing 80% of the purchase cost, with the remaining 20% of the cost financed from the residual value of the vehicles at end of life. This is within the current budget cost. Members are asked to raise the cost for approval purposes up to £450,000 to allow for lower emission vehicles, where they might be more expensive, to be considered alongside conventional vehicles. Where possible, officers will seek to stay within the £450,000 limit by making choices in the mix of higher and lower cost vehicles, and retaining some existing vehicles which are capable of longer life.

18. A borrowing cost of £450,000 is higher than the original £400,000 approved in principle in the Capital Strategy, but is capable of being built into the borrowing proposals in the Capital Programme without breaching existing prudential limits.

Risk Management:

19. Without prior approval for replacement vehicles officers are unable to authorise replacements to be purchased in a timely manner and service operations are disrupted or made inefficient by having to cope with unreliable or unsuitable vehicles; in addition older vehicles, especially now there is increased electronic complexity, throw up unexpected high costs where expensive worn out components have to be replaced or investigated; the ability to replace the vehicles rather than repair them when the vehicle is beyond its original estimated asset life saves on uneconomic repair bills. There is a

degree of unpredictability around when vehicles require expensive repairs, and when they do fail, often there is no alternative but to repair the vehicle as it is required for operations to continue. Scheduling replacements before expensive repairs are required is usually more cost effective.

Sustainability:

20. The purchase of new vehicles incurs an environmental cost of manufacture, an environmental cost in operation, and an environmental cost of disposal at end of life, whether conventional or low emission vehicles are purchased and operated. These whole life costs will be taken account of in purchasing vehicles, and we will be guided by Energy Trust recommendations.

Equality:

21. Not applicable

22. Background papers (not previously published)

None

23. Appendices

Appendix 1: Vehicles to be replaced

Report Author, Job Title and Publication Date

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