

## Slough Borough Council

<b>Report To:</b>	Cabinet
<b>Date:</b>	18 December 2023
<b>Subject:</b>	Procurement of Replacement Fleet Vehicles
<b>Lead Member:</b>	Councillor Kelly, Lead Member for Highways, Housing and Transport
<b>Chief Officer:</b>	Pat Hayes Executive Director Regeneration, Housing and Environment
<b>Contact Officer:</b>	Savio DeCruz AD Place Operations
<b>Ward(s):</b>	All
<b>Key Decision:</b>	YES
<b>Exempt:</b>	NO
<b>Decision Subject To Call In:</b>	YES
<b>Appendices:</b>	A - Overall Life Cycle Costs of Second-hand purchase recommendation

### 1. Summary and Recommendations

- 1.1 This report sets out the preferred medium term options for the sourcing of essential vehicles for the Direct Service Organisation (DSO) to undertake grounds and highways maintenance, and street cleansing services. The recommendations detailed in this report ensures that the council obtains the very best value for money, within the financial package available, in sourcing specialist vehicles to enable the delivery of statutory services to the residents of Slough.

#### Recommendations:

Cabinet is recommended to:

- a) Approve the procurement of a replacement fleet of vehicles for use within the Environment directorate in the following order of priority:
- (i) outright purchase of second-hand vehicles capable of suitable adaptation and deemed available for a minimum of five years;
  - (ii) outright purchase of new vehicles deemed available for a minimum of five years;
  - (iii) procurement by lease for a maximum period of five years
- b) Delegate authority to the Executive Director for Regeneration, Housing and Environment, in consultation with the Lead Member for Environment, Environmental Services and Open Spaces, Lead Member for Finance, Council Assets, Procurement and Revenues & Benefits and the Executive Director Finance & Commercial, the procurement and award of contract for acquisition of fleet vehicles in line with

recommendation a) and for procurement and award of contract for associated maintenance, ensuring value for money is secured when selected the most appropriate method;

- c) Delegate authority to the Executive Director for Regeneration, Housing and Environment, in consultation with the Lead Member for Finance, Council Assets, Procurement and Revenues & Benefits, Lead Member for Environment, Environmental Services and Open Spaces and the Executive Director, Finance & Commercial, the procurement and award of contract for the Fleet Management Routing software system.
- d) Approve that the capital programme be amended to include acquisition of the DSO fleet with funding being from DfT grant and where possible specific programme grants to where possible preserve the more adaptable DfT grant funding for other critical purposes. The programme to be profiled across 2023/24 and 2024/25 as appropriate to available second hand vehicles balancing the need to come within revenue budget.

**Reason:**

- The council currently leases all of its vehicles used for grounds and highways maintenance and street cleansing. An Urgent Decision report was approved for a 12-month lease agreement on 30<sup>th</sup> October '23 to provide time for officers to seek medium term solutions for the procurement of vehicles to deliver savings as part of the medium term financial strategy (MTFS) and reduce the on-going revenue pressures within the service.
- Local authorities have a statutory duty under the Environmental Protection Act 1990 to ensure public spaces and highways are kept clean and free from litter and refuse as far as is reasonably practicable (as detailed in the Code of Practice on Litter & Refuse Nov 2006).
- To comply with the Environmental Protection Act 1990 the council provides a service that is responsible for the following operations, which require specialist vehicles:
  - Kerbside and trade waste collection services
  - Cleaning all streets, footways and open spaces that are in public ownership
  - Grounds maintenance of all public areas
  - Removal of fly-tipping
  - Collection of dead animals both domestic and wild

**Commissioner Review**

The commissioners are content with the recommendations in this report.

**2. Report**

**Introductory paragraph**

- 2.1 Slough Borough Council has a statutory duty to collect and dispose of waste, to keep a predominantly litter free environment and to ensure that our roads are maintained to a safe standard. We are also committed to healthy lifestyles and part of this is to encourage the use of our parks and open spaces by keeping

them safe and well maintained. The teams that we have in place to deliver these services rely on the provision of suitable vehicles. A new approach now needs to be made for the continuation of service delivery and the financial stability of the council.

2.2 The proposed approach is to review all fleet following the Urgent Decision report, to determine the number of vehicles required and to then proceed with the incumbent and/or other market providers to seek and purchase second-hand vehicles to reduce the revenue leasing costs. This is a new approach for the DSO fleet but has been implemented within the council previously for the Community Transport service.

2.2 The council's Corporate Plan identifies three priorities:

- **A borough for children and young people to thrive** – having clean and safe environments for children and young people to live in and to play and exercise in is a key requirement for a child's development.
- **A town where residents can live healthier, safer, more independent lives** – feeling safe in a well maintained and clean environment encourages people to live more healthier and independent lives.
- **A cleaner, healthier and more prosperous Slough.** Well kempt environments bring pride to communities and are attractive to visitors to Slough.

### Options considered

OPTION	DESCRIPTION
(A) First Priority	<b>Purchase second-hand vehicles with the associated maintenance agreements for required fleet and associated routing software.</b> This route to procure second-hand vehicles provides the council with a sound medium term plan with revenue savings to support the MTFs. A wrap around maintenance agreement will also ensure that the service has support to continue service delivery. To ensure on-going efficiencies and effective management of the fleet to secure a new routing software package to enable the service to better plan for future changes. <b>Recommended</b>
(B) Second Priority	<b>Purchase new vehicles:</b> The purchase cost of new vehicles is much higher for the council however, if the service is not able to source second-hand vehicles or lease the same vehicles at a competitive price it will need to allocate funds to secure new vehicles to ensure service delivery is maintained. The number of vehicles that may be affected by this scenario are small in number (3 to 4 vehicles)
(C) Third Priority	<b>Continue to lease vehicles following the 12 month agreement with our new supplier</b> – The service earlier in the year tendered and secure a five year option to lease vehicles. If the above options are not deliverable due to market conditions then the council can opt to go back to the 5 year lease arrangement. This does not provide short-medium term efficiencies and savings so will only be implemented if the above priorities are not implemented.

## Background

- 2.3 In April 2023 Cabinet approval was given to go out to the market to procure bespoke vehicles for use by the DSO. The tender returns for leasing and purchase were limited with only one supplier providing a cost for lease only.
- 2.4 The new supplier offered value for money on the lease fleet options but the revenue outlay for a full year would leave the service with significant pressures on the budget. As a result of the financial pressures and the need to provide efficiencies and savings, officers have negotiated with the new supplier, to provide a 12-month contract with options to purchase second-hand fleet.
- 2.5 The recommendation is based on the constraints of revenue and capital funding that the council faces, as revealed from the previous market testing and given the recent inflationary environment. The table below gives the total cost differences between the three priorities for procurement, without inflation and including the fleet management system, over a 5 year period at current values. It illustrates that to purchase second-hand provides better overall value in cash terms (and residual values to reinvest). Particularly given that leasing also significantly exceeds the revenue budgets (para 3.1.1 below) and as identified in the last report and has greater inflationary risk. While purchasing comes below the current revenue budget as the leased vehicles are replaced (see Appendix A).

Procure Vehicles by	Total Cost £	Rank
-		
Lease	2,701,854	2
Purchase New	3,505,553	3
Purchase 2nd Hand	2,644,226	1

- 2.6 The purchase of second-hand vehicles and installation costs of the IT system will be funded using DFT grant and ICT funding, so the cost falling on revenue budgets (if all vehicles are purchased) will be £1.3m, which is an average of £265k per annum over the 5 years and which is less than the annual budget of £365k. However, any underspends will initially be used to off-set the fact that for the first two financial years vehicles will at least in part need to be leased to maintain a service. The second-hand purchases require less capital outlay than buying new, which preserves limited available funding at this juncture and therefore the clear preference if the 2<sup>nd</sup> hand market retains value.
- 2.7 Officers over the next few weeks and months will commence the procurement and purchase programme for replacement vehicles and as part of this process will negotiate a maintenance agreement for specific vehicles. The Councils current maintenance agreement for the Refuse Collection Vehicles (RCV's) is with Denis Eagle and therefore some of the vehicles can be maintained at the Chalvey Depot.
- 2.8 Procurement for maintenance of other vehicles, namely the smaller vehicles, could be provided by Small Medium Enterprise (SME's) based in Slough which will help the local economy and reduce our overhead costs for travel and officer time. This will still need to meet the public procurement regulations and is an opportunity to obtain social value from Council contracts.

- 2.9 A Review of vehicles will start with the various services that utilise the fleet to ensure the correct number of vehicles are provided. This review will form part of the purchasing approach that the council adopts.
- 2.10 The service will manage both maintenance and leases within the current budget for leases of £365,500. As advised in the previous Urgent Decision report there is a pressure given the circumstances of the new lease. The overall estimated annual Maintenance and additional operating costs and modelling of the remaining lease costs as vehicles are replaced (see Appendix A), indicate that it is possible to bring spend in line with budget which is not possible under a lease arrangement. However, this will also depend on both the market conditions, the mix, age and type of vehicles and in regard to the level of maintenance risks. Officers are working on a profile of purchases, funding lease and maintenance estimates, to set against budget for the overall position (a model of these is provided in Appendix A). The Lead Member and the Executive Director will be briefed on these updates, though the clear intention is it needs to balance and provide value for money.
- 2.11 In parallel to the updating of the vehicle fleet, a review of the IT application to route waste collection has been undertaken.
- 2.12 It is recognised that the existing application is no longer fit for purpose. There are better and more flexible options available in the market. These applications offer a range of benefits to residents and service staff:

For residents:

- Improved online reporting for residents – a resident can submit a picture or a note identifying or requesting a service; and,
- Quicker and better responses to resident queries and requests.

For the service and staff:

- Better safe working practices and compliance – staff can carry out and record vehicle safety inspections through the application;
- Reduced operational costs – improved staff productivity, reduction in wasted journeys, reduction in poor routing, reduction in fuel costs;
- Automated job and route scheduling – work is appropriately packaged based on live routing information; and,
- Improved, more efficient management of resources – an example would be falsely reported bin collection, a resident would be unable to report a bin as missed if the bin was due to be uplifted that day and the collection route had not reached the bin yet.

- 2.13 The table below details the likely cost for the implementation and four year running of the IT application:

<b>Budget Item</b>	<b>Yr 1</b>	<b>Yr 2</b>	<b>Yr 3</b>	<b>Yr 4</b>	<b>Total</b>
<b>Annual licencing</b>	50,800	50,800	50,800	50,800	203,200
<b>Project costs</b>	62,750				62,750
<b>Total</b>	113,550	50,800	50,800	50,800	265,950

- 2.14 Additionally costs to support the service aspects of implementation will be needed both backfill on training time, administrative and project support has been advised. This has been estimated to be c. £0.09m including training and a small contingency.

2.15 If purchasing vehicles, it becomes important to safeguard the assets and keep maintenance costs down by avoiding unnecessary wear and tear. Some of the benefits are given above that may help restrain other revenue costs. As these could be relatively small in value and difficult to track back to the software directly e.g. for instance fuel costs are so variable, these cash benefits of the software have not been factored in at this stage and will be picked up through budget monitoring and review post-implementation.

### **3. Implications of the Recommendation**

#### *3.1 Financial implications*

3.1.1 The DSO currently has a revenue budget of £0.37m to cover the leasing costs of 37 vehicles in 2023/24, up to December 2024. The current cost based on the tender returns in May/June '23 would have left the service with a general fund pressure of around £0.08m per annum. Therefore, it was agreed that it is better value for money to purchase our own second hand vehicles and to meanwhile secure a 12 month lease to ensure services could continue.

3.1.2 Capital funds through the Dept for Transport (DfT) capital grant in 23/24 and 24/25 will be used to purchase the second hand vehicles including fleet management software at a cost of £1.2m with an estimated vehicle resale value of £0.25m. This will be a net cost of £0.97m.

3.1.3 The second-hand fleet market is very buoyant and as a result the vehicles are not always available, therefore funding over a 2-year period will allow a flexible approach and avoid the need to purchase vehicles that do not present value for money.

3.1.5 The model provided in Appendix A suggests a revenue cost of £1.3m (excluding remaining lease time) over 5 years against a budget of £1.8m. The initial underspend will be used to pay the leasing costs, required meanwhile, to maintain a service, while the vehicles are being purchased.

#### *3.2 Legal implications*

3.2.1 The Council has statutory duties in relation to waste collection and street cleansing. Where these services are delivered in-house, it is necessary for the Council to procure vehicles to facilitate these services. The Council is required to comply with the Public Contracts Regulations 2015 and its own contract procedure rules in relation to the procurement of vehicles, whether such purchase is outright or via a leasing arrangement and in relation to the procurement of a new software system.

### 3.3 Risk management implications

#### 3.3.1

<b>Risk</b>	<b>Assessment of risk</b>	<b>Mitigation</b>	<b>Residual Risk</b>
Loss of continuity of service if vehicles cannot be replaced within given timescales	Medium Vehicles could be hired but specialist vehicles tend to be built to order and are not available to hire	Explore hiring options or extend current contract	Medium
The current preferred supplier for leased vehicles withdraws current offer in whole or part.	Medium Unlikely in current financial climate	Negotiate with incumbent provider for continued service	Low
Costs exceed estimated financial envelope	High Current market is volatile and demand significantly exceeds supply leading to long lead in times. Specialist vehicles are manufactured to order	Look at purchasing second hand vehicles to bring costs down and to access supply	Medium

### 3.4 Environmental implications

3.4.1 All new diesel-powered vehicles will have a Euro 6 diesel engine, which meets the ultra-low emissions standard to drive to London and other ULEZ areas.

### 3.5 Equality implications

3.5.1 There are no direct equality impact implications arising from this report.

### 3.6 Procurement implications

3.6.1 Cabinet agreed in April 2023 to go out to the competitive market to procure essential vehicles for DSO service delivery using national frameworks. Only one completed bid was submitted relating to a 5-year lease period for all required vehicles.

3.6.2 The council's intention to formally award the contract to the preferred supplier, recommended by Cabinet in July 2023 has been re-negotiated following an Urgent Decision report and the new supplier has now agreed to provide fleet for a 12-month period.

3.6.3 Second-hand vehicles and maintenance agreements will be reviewed through the procurement team to determine the best route and the most financially advantageous option for the council.

3.6.4 For the purchase of the IT application, the application will be procured from a Crown Commercial Service's framework agreement – G-cloud 13 RM1557.13. The procurement will follow the standard call-off procedures for the framework.

3.6.5 The contract would be for a period of four years and include – implementation of the application, installation of the devices into vehicle cabs, staff training and annual licencing.

3.6.6 The contract would be scalable to allow additional vehicles of be added as required during the contract duration.

### 3.7 *Workforce implications*

3.7.1 There are no workforce implications arising from this report.

### 3.8 *Property implications*

3.8.1 There are no property implications arising from this report.

## 4. **Background Papers**

None



## Appendix A

### Overall Life Cycle Costs of Second-hand purchase recommendation

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Lifecycle Total
<b>Revenue</b>	£	£	£	£	£		£
Totals of leases ongoing	327,886	187,719					515,606
Totals for Maintenance & Operating Cost*	5,546	110,571	232,519	237,169	241,913	246,751	1,074,469
Fleet management software licence		50,800	50,800	50,800	50,800	50,800	254,000
Total Revenue Costs	333,432	349,091	283,319	287,969	292,713	297,551	1,844,074
Total Revenue Budget	365,500	365,500	365,501	365,502	365,503	365,503	2,193,009
Indicative revenue position	(32,068)	(16,409)	(82,182)	(77,533)	(72,790)	(67,952)	(280,983)
<b>Capital</b>							
Purchases and Sale	197,998	874,995				(254,626)	818,367
Grant funding	(197,998)	(874,995)					(1,072,993)
Software implementation Costs	15,688	137,063					152,750
Software implementation Funding	(15,688)	(137,063)					(152,750)
Residual values on sale reinvestment - c/fwd						254,626	254,626
Capital Balance	0	0	0	0	0	0	0
Net cash outflows/(inflows)	<u>547,118</u>	<u>1,361,148</u>	<u>283,319</u>	<u>287,969</u>	<u>292,713</u>	<u>297,551</u>	<u>3,069,817</u>
This cycles -External funded "inflows"	<u>(197,998)</u>	<u>(874,995)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,072,993)</u>

\*those relevant to change from Lease to Purchase.

## Appendix A - Further notes

1. The costings and budget position shown are based on modelling assumptions (see further below). It is for 36 vehicles (one from the current fleet dropping out). Purchasing would be on a phased timing of purchase and depending on what is in the second hand market. The underspends shown therefore may vary considerably in reality due to different costs and timings in practice and might be unwise to assume at this stage for 2024/25. The lifecycle provides a clear proof that purchasing brings the revenue costs into alignment to the budget and with some head room and allowing for funding the software licence needed to work the fleet to best advantage. There may be some small reduction in existing software licences and legacy use which is related to this but is not shown as marginal cost.
2. Additionally, if no second-hand vehicles (given value for money, market and condition issues) were available then it may be necessary to purchase new or continue leasing longer than planned for that vehicle or type. This will change the position in that new vehicles would need to be purchased, subject to available funds, the lifecycle changes in that more grant to fund the higher cost will be required. Which will need to be held in contingency until this is clear. For new vehicles the residual value could run beyond the 5 years indicated for second hand vehicles or just under double the value of second hand vehicles at the 5 year point. Maintenance would be less in the first 3 years approximately and further early on will be covered in part by warranties. However, none of these aspects are enough to overcome the serious resource constraint in funding the purchase in the first place that the council faces.
3. The software implementation is shown for now under capital however its possible substantive amounts will be revenue based. Funding can be substituted in to release general fund as necessary if this were the case (see Financial implications and DfT grant information elsewhere). This is shown over 5 years licencing to align with the vehicles lifecycle and is shown as fixed price (though originally envisaged for 4 years contract).
4. Assumptions in the model include
  - i. Even purchasing over the periods involved for the vehicles and used to calculate lease ongoing and lease drop out points and the maintenance costs.
  - ii. Current price estimates have been used. The second hand market may or may not reflect the assumptions used. It will be a matter of balancing cost on individual vehicles with what the council can afford.
  - iii. There is some flex in funding for purchase of vehicles to allow for changes in costs
  - iv. However a key overriding assumption (fundamental principle) given the council's position is that key grants and funds must be carefully used to ensure funds are there for helping balance the council's budget position.

- v. Purchases are assumed to flow evenly over the periods involved and overall average at the mid-point of the period e.g. in the last 3 months of this years vehicles will start working mid Feb being halfway of the last quarter. Actual purchasing patterns will differ of course.
  - vi. Maintenance and Operating costs for simplicity are assumed to spread evenly over the financial year and to inflate in line with Bank of England and OBR assumptions over the period. Obviously, timing of vehicle purchases informs this and the actual timing of maintenance cost will vary in practice. The maintenance is based on appropriate costings for second hand vehicles at baseline current prices, however there is a risk this may differ (for good or bad) in practice, given they will be second hand vehicles. Inflation has been allowed for cumulatively on maintenance costs starting 2024/25 and onwards broadly in line with government forecasts of 5%, 3% and 2% thereafter and allowing slightly for higher inflation in maintenance than general inflation.
  - vii. Lease costs fall out upon purchase there is no overlap costs included.
5. This clearly proves with some headroom created in revenue based on these assumptions and that the recommended course achieves the desired level of revenue cost reduction from the original lease options the council faced.
  6. Given timeframes the only alternative would be to continue leases. These will cost more than the existing revenue budget as discussed in the last paper and so is not recommended and given the results of this model. For simplicity the whole life costing assumes that all vehicles are sold at the end of the 5 year period at the same time and replaced. . Given that the market may shift and as the next 15 months of purchases progress vehicle age may get older or the market more expensive - so this is not an unreasonable and slightly more cautious assumption than assuming 5 years from date of purchase.
  7. The main DfT grant used to fund the non-operating expenditure as per the life cycle table above, is a government capital grant which has facility to also pick up revenue costs in specific areas of activity. Therefore, if some activity on revenue (such as the IT project) does not meet the grant then it would be possible to use the grant to release general fund that would otherwise be allocated elsewhere. It is further hoped to manage the impact on this grant by part funding some vehicles via specific project grants that they will work on.
  8. The residual value receipt will need to be reinvested in similar assets and shown as a c/fwd in the table. If not, then it would be possible the value would need to be refunded back to the grant awarding body.