

**REPORT TO EXECUTIVE
SCRUTINY COMMITTEE**

29 NOVEMBER 2016

**REPORT OF DIRECTOR
OF COMMUNITY
SERVICES**

COUNCIL FLEET RENEWAL FUND

VEHICLE FLEET MANAGEMENT, PROCUREMENT AND MAINTENANCE

1. SUMMARY

At its last meeting, during discussions on performance reports, there was a discussion held about the Council's vehicle fleet and the development of the Councils fleet renewal fund. The discussion included how the Council bought, hired, replaced and maintained vehicles. This report provides details of the options for vehicle procurement/vehicle hire open to the council and examples of the considerations given to each option when deciding the most appropriate

2. RECOMMENDATION

Executive Scrutiny Committee considers and notes the report content.

3. BACKGROUND

The Fleet Management Division sources appropriate vehicles using various methods to meet the user department and business requirements. Consideration of the cost effectiveness of the vehicle is paramount during this decision making purpose however the critical factor is the absolute requirement for the vehicle to be fit for purpose.

The Fleet Management Division also takes responsibility for compliance of the Authorities fleet operation along with the individual user departments.

Planned Preventative Maintenance is a major factor in keeping the fleet compliant, the Authorities work shop staff carry out scheduled planned preventive maintenance, clear daily defects, control sub-contractors and keep records of such work. In addition the maintenance

costs are also considered in the whole life vehicle costs when deciding on which method the council will use to provide the required vehicle.

4. OPTIONS FOR FINANCING VEHICLES

Contract Hire

A cost-effective and easily manageable form of leasing, Contract Hire is one of the most widespread. In fact, it is the most popular way of hiring a business vehicle.

Contract hire agreements allow a company to take on a vehicle for a set period of time (usually between 12 months and five years).

The organisation taking out the agreement doesn't own the vehicles, when the term of the contract is over, the vehicles are returned to the Contract Hire Company, there is often an opportunity to purchase the vehicle at the end of the contract if desirable.

Pros

- No large capital expenditure required.
- Allows predictable budget management and forecasting
- Low risk. The vehicles belong to the Contract Hire Companies.
- Fixed Annual costs - For a set annual payment, the Council gets the use of a vehicle for an agreed duration and mileage that suits our needs.
- Problem free – we can Contract Hire to ensure almost all problems associated with vehicle ownership are covered in the annual payment i.e. maintenance tyres wear and tear.
- Free up capital - Contract Hire popular way to provide capital assets via revenue streams.
- Contract Hire company power - Contract Hire companies purchase thousands of vehicles each year; therefore they are experts in negotiating substantial discounts with vehicle manufacturers. They can pass these savings on to clients in the form of a competitive business contract hire rate.
- They also hold significant influence with the manufacturers, which as a customer SBC tap into.
- Via contract hire you are buying into a huge network of experts impossible for the council to replicate itself.

Cons

- More Expensive than Direct Ownership
- Vehicles never become Council Property
- Potential Relationship Problems with the Contract hire company
- Potential Excess Mileage payments.
- Expensive end of lease costs i.e. Damage - Standard wear and tear is allowed, however anything more severe could see the user presented with an end of contract invoice.

Outright Purchase (New)

The authority has a number of frameworks that can be used these can give bulk buying capabilities and offer large reductions on manufacturers list price.

Pros

- Cheaper than Contract Hire
- Purchase through frameworks can give significant discounts i.e. through NEPO
- Vehicles can be specified to suit the operational department and business needs.
- Close manufacturer relationship, no Contract hire middleman
- Council asset
- Can be moved on quickly if service delivery changes or contracts lost.

Cons

- Fluctuations in budgetary requirement i.e. Maintenance will vary each year and increase on an annual basis.
- Large capital outlay.
- Or Prudential Borrowing
- All risk with the Council
- Limited influence with Manufacturer (due to relatively small number of units bought)

Outright Purchase (Used)

Used vehicle can be sourced from various sources including, dealers, auctions, traders and the internet, used vehicles are an option for many reasons, if there is a short term requirement, a vehicle becomes available that suits the specification required.

Second hand vehicle can and have been a cost effective way for the council to get access to a needed vehicle, and provides a further option when assessing vehicle need against resources available. Not appropriate in all cases but does provide a fit for purpose option in some cases.

Pros

- Cheap and cost effective option in the right circumstances.
- Small financial outlay managed from revenue budget.
- Good for limited time requirements e.g. to gear up for a 12-24 month contract.
- Can be purchased quickly. (Sometimes not!)
- Allow appropriate cost effective vehicle to be used rather than having to buy/hire new and expensive higher than need specification vehicles. (examples attached)
- Ability to move the vehicles on quickly if required.
- Minimal impact of budgets as opposed to expensive new vehicles

Cons

- More management time required to source vehicles and arrange inspections.
- Potential of buying poor quality
- Limited lifespan of vehicle.

5. FLEET RENEWAL FUND (FRF)

The FRF was set up around ten years ago to fund a cost effective way of providing vehicle for front line services both new and second, as appropriate. The concept first came into operation when it was decided to bring Grounds Maintenance Services back in-house and we had limited resources to provide vehicles, vans, crew cabs and pickup trucks for our new workforce. Essentially the Fleet Renewal Fund operates as our own internal Contract Hire Company without a profit element built in. Contributions are made from revenue budgets into the Fleet Renewal Fund to build up a capital some so when the vehicle needs to be replaced there is a sum of money accumulated to allow for a replacement vehicle. A simple example of the principal follows:

Example

Vehicle Cost	£20,000
Residual Value of Vehicle	£4,000
(Income from Sale)	
Net cost	£16,000
Vehicle Life Expectancy	4 Years
Annul FRF Contribution	£4,000 (percentage uplift would be applied in reality)

Therefore after 4 years 4x£4000 had been built up in the fund £16,000. The income from existing vehicle sale will bring in £4,000 providing £20,000 to purchase a newer updated vehicle. The same principle applies for covering vehicle maintenance costs. The Fleet Manager will estimate

the total cost of Maintenance per annual for the vehicle and this will be contributed to the FRF Maintenance pot in addition to the build –up of a capital sum.

The fund is now well established following many years of management. The fund has been built up over years through annual revenue contributions and larger capital injections when budgets allow so the fund is now mainly self-sufficient.

APPENDIX A
26 Tonne Refuse Example

Vehicle Cost Comparisons		
Vehicle Details		26 Ton Refuse Vehicle
Date		11/11/2016
Outright Purchase Cost (New)		
Cost of purchase	£	154,000.00
Maintainance	£	47,500.00
Residual Value	£	40,000.00
Management & Insurance Fee	£	8,250.00
RFL	£	3,250.00
Total Cost	£	173,000.00
Price P/A	£	34,600.00
Outright Purchase Cost (Used)		
Cost of purchase	£	20,000.00
Maintainance	£	62,500.00
Residual Value	£	1,500.00
Management & Insurance Fee	£	8,250.00
RFL	£	3,250.00
Total Cost	£	92,500.00
Price P/A	£	18,500.00
Contract Hire		
Contract hire price P/A	£	208,050.00
Maintainance		N/A
Residual Value		N/A
Management & Insurance Fee	£	8,250.00
RFL		NA
Total Cost	£	216,300.00
Price P/A	£	43,260.00
Spot Hire		
Weekly spot hire cost	£	800.00
Maintainance		N/A
Residual Value		N/A
Management & Insurance Fee (40% of spot hire cost)		1.4
RFL		N/A
Total Cost	£	291,200.00
Price P/A	£	58,240.00

Key				
	Management Fee	Insurance	RFL	Category
£	465.00	£ 250.00	£ 220.00	Caddy/Connect
£	550.00	£ 700.00	£ 220.00	Transit
£	700.00	£ 700.00	£ 165.00	Iveco Mini Bus
£	800.00	£ 850.00	£ 660.00	7.5 ton & above

Management	£ 800.00
Insurance	£ 850.00
Total	£ 1,650.00

Cost of purchase (new)	£154,000.00
Maintainance (new)	£ 9,500.00
Residual Value (new)	£ 40,000.00
Cost of purchase (used)	£ 20,000.00
Maintainance (used)	£ 12,500.00
Residual Value (used)	£ 1,500.00
Contract hire price P/A	£ 41,610.00
Contract Years	5
RFL	£ 650.00

Number of Vehicles	1
--------------------	---

APPENDIX B
Panel Van L2 Example

Vehicle Cost Comparisons		
Vehicle Details		
Date		Panel Van L2 10/11/2016
Outright Purchase Cost (New)		
Cost of purchase	£	10,900.00
Maintainance	£	2,250.00
Residual Value	£	3,500.00
Management & Insurance Fee	£	3,575.00
RFL	£	1,125.00
Total Cost	£	14,350.00
Price P/A	£	2,870.00
Outright Purchase Cost (Used)		
Cost of purchase	£	6,000.00
Maintainance	£	4,475.00
Residual Value	£	750.00
Management & Insurance Fee	£	3,575.00
RFL	£	1,125.00
Total Cost	£	14,425.00
Price P/A	£	2,885.00
Contract Hire		
Contract hire price P/A	£	12,000.00
Maintainance		N/A
Residual Value		N/A
Management & Insurance Fee	£	3,575.00
RFL		NA
Total Cost	£	15,575.00
Price P/A	£	3,115.00
Spot Hire		
Weekly spot hire cost	£	75.00
Maintainance		N/A
Residual Value		N/A
Management & Insurance Fee (40% of spot hire cost)		1.4
RFL		N/A
Total Cost	£	27,300.00
Price P/A	£	5,460.00

Key			
Management Fee	Insurance	RFL	Category
£ 465.00	£ 250.00	£ 220.00	Caddy/Connect
£ 550.00	£ 700.00	£ 220.00	Transit
£ 700.00	£ 700.00	£ 165.00	Iveco Mini Bus
£ 800.00	£ 850.00	£ 660.00	7.5 ton & above

Management	£ 465.00
Insurance	£ 250.00
Total	£ 715.00

Cost of purchase (new)	£ 10,900.00
Maintainance (new)	£ 450.00
Residual Value (new)	£ 3,500.00
Cost of purchase (used)	£ 6,000.00
Maintainance (used)	£ 895.00
Residual Value (used)	£ 750.00
Contract hire price P/A	£ 2,400.00
Contract Years	5
RFL	£ 225.00

Number of Vehicles	1
--------------------	---