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Lichfield
District Council

**District Council House, Frog Lane
Lichfield, Staffordshire WS13 6YU**

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Monday, 29 April 2024

Dear Sir/Madam

CABINET

A meeting of the Cabinet has been arranged to take place **TUESDAY, 7TH MAY, 2024 at 6.00 PM IN THE THE COMMITTEE ROOM** District Council House, Lichfield to consider the following business.

Access to the The Committee Room is via the Members' Entrance.

The meeting will be live streamed on the Council's [YouTube channel](#)

Yours faithfully

Kerry Dove
Chief Operating Officer

To: Members of Cabinet

Councillors Cox, Farrell, Pullen (Chairman), Silvester-Hall, A Smith, Strachan and M Wilcox



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AGENDA

1. Apologies for Absence
2. Declarations of Interest
3. Disabled Facilities Grant Framework 3 - 6
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Disabled Facilities Grant Framework

Cabinet Member for Finance & Commissioning

Date: 7 May 2024

Agenda Item:

Contact Officer: Sarah Carrington/Andrew Rowbotham/Helen McKenzie

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Key Decision? YES

Local Ward N/A

Members



Lichfield
District Council

Cabinet

1. Executive Summary

- 1.1 Lichfield West Midlands Trading Services (LWMTS) have been commissioned to deliver Disabled Facilities Grants (DFG) adaptations on behalf of the Council (LDC) since 1st April 2023. The company are currently using a third-party Dynamic Purchasing System (DPS) to award works to contractors. However, this has proven to be very complicated and time consuming. This is resulting in longer than necessary time frames for the service user to have the works completed.
- 1.2 As such we are proposing to develop our own 'fit for purpose' Framework. LDC are proposing to conduct a tender process to establish a 'DFG Works Framework' that can be used by LWMTS and other public sector organisations to award DFG works to Contractors for a maximum term of four years. This report is to seek approval from Cabinet to proceed with this exercise which is for the full value of the framework. LDC/LWMTS direct spend via the Framework will be constrained to the agreed capital budget for DFGs as outlined in the financial implications section of this report. Due to the opportunity for other organisations to utilise the Framework, we are proposing to set the value of the Framework as high as possible, £1 billion.
- 1.3 The value of the Framework will therefore need to be tendered in accordance with the Public Contracts Regulations 2015 and LDC Contract Procedure Rules.

2. Recommendations

- 2.1 To approve the recommendation of this framework/associate works/service to the value of up to £1 billion, noting that direct LDC/LWMTS spend via the framework will be constrained to the agreed capital budget and Better Care Fund grant financing for DFGs.
- 2.2 To delegate authority to Cabinet Member for Finance & Commissioning to approve the award of Contractors appointed to the Framework

3. Background

- 3.1 The Council has a statutory duty to provide DFGs, since 1st April 2023 LWMTS have been delivering this service on behalf of LDC.
- 3.2 In the first year of delivering DFGs, LWMTS have transformed the service beyond recognition, awarding significantly more grants and delivering more adaptations than the previous provider. A full review of the first year of operation is due to be considered by Cabinet in June.

- 3.3 LWMTS currently use the Independence Brokerage Services CIC (“INCIC”) DPS system to award works to Contractors but have found this that DPS can be a complicated and time-consuming to use. The DPS has also proven to more profit driven rather than service focussed. The system does not encourage applications from smaller, local contractors as the registration and mini-competitive process is too onerous for smaller businesses. As such we are proposing to develop our own ‘fit for purpose’ Framework.
- 3.4 LDC are looking to run a tender process to put a DFG works Framework in place that can be used by LWMTS to award DFG works to contractors. LDC and LWMTS are not the only organisations that are finding the current DPS challenging. As such, by developing our own Framework there is an opportunity to allow other public sector organisations to utilise it, for an access fee. This would generate additional funds, that can be invested back into our District. The income from the access fee will sit with LWMTS, with LDC recharging for the costs associated with the support of its Procurement Team in the ongoing management of the Framework. The Procurement team have confirmed they are confident to lead on the procurement process but are seeking support from Anthony Collins legal team in the drafting of the Framework and call off terms and conditions.
- 3.5 Direct LDC/LWMTS spend via the Framework would be constrained to the funding we receive from the Better Care Fund for DFGs, as detailed in the financial implications section of this report. In 2024/25 we have been allocated £1.2 million from the Better Care Fund for DFGs. Due to the opportunity for other organisations to utilise this Framework, we have been advised to set the value of the Framework as high as possible, therefore we are proposing to set it at £1 billion.
- 3.6 It is anticipated that the Framework will be nationwide split into ‘lots’ per region and by works type. Contractors will be pre-assessed in order to get on the Agreement following the evaluation of their quality including finances, insurance, previous experience, relevant accreditations, social value criteria and commercial submission.
- 3.7 The framework will allow for direct award (against submitted framework pricing) or further competition among Contractors.

Alternative options	<ol style="list-style-type: none"> 1. Take no action – this would result in significant delays in being able to get DFG cases on site and completed in an acceptable timeframe. 2. It could also result in non-compliance with the PCR 2015 (Procurement Act 2023) 																				
Consultation	<ol style="list-style-type: none"> 1. Leadership Team 																				
Financial implications	<ol style="list-style-type: none"> 1. The Approved Capital Programme from 2024/25 to 2027/28 together with a projection for 2028/29 is shown in the table below with funding provided by the Better Care Fund: <table border="1" data-bbox="437 1630 1517 1816"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Approved Budget</th> <th>Projection</th> <th>Total</th> </tr> <tr> <th>2024/25 £000</th> <th>2025/26 £000</th> <th>2026/27 £000</th> <th>2027/28 £000</th> <th>2028/29 £000</th> <th>£000</th> </tr> </thead> <tbody> <tr> <td>Disabled Facilities Grants - 100% funded by Better Care Fund</td> <td>1,220</td> <td>1,337</td> <td>1,300</td> <td>1,100</td> <td>1,100</td> <td>6,057</td> </tr> </tbody> </table> 		Approved Budget				Projection	Total	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	£000	Disabled Facilities Grants - 100% funded by Better Care Fund	1,220	1,337	1,300	1,100	1,100	6,057
	Approved Budget				Projection	Total															
	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	£000															
Disabled Facilities Grants - 100% funded by Better Care Fund	1,220	1,337	1,300	1,100	1,100	6,057															
Approved by Section 151 Officer	Yes																				
Legal implications	<ol style="list-style-type: none"> 1. A compliant procurement procedure will be undertaken. 																				
Approved by Monitoring Officer	Yes																				

Contribution to the delivery of the strategic plan	<p>1. This project will support the Council to focus on what is important locally, and support the following Strategic aims:</p> <p>Enabling People – to collaborate and engage with us Shape place – to make sure sustainability and infrastructure needs are balanced Develop prosperity – to encourage economic growth, enhance the district for all, invest in the future A Good Council - that is responsive, and customer focussed</p>
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Equality, diversity and human rights implications	<p>1. An open tender process will be used for this exercise – therefore enabling a fair, inclusive, and accessible process. All suppliers will be treated equally.</p>
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EIA logged by Equalities Officer	Not required
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Crime & safety Issues	<p>1. Checks have been undertaken to ensure that the Supplier has full SSIP accreditation (competent in health and safety practices and procedures)</p>
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Data assessment	<p>1. The procurement team use the <u>social progress index</u> as part of the social value standard question template. Suppliers are encouraged to review the local data provided by the SPI to tailor their social value responses and contractual commitments.</p>
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Environmental impact (including climate change and biodiversity)	<p>1. The use of a local supplier employing people local to the area will have a positive impact on travel and therefore carbon emissions.</p>
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GDPR / Privacy impact assessment	<p>1. Anthony Collins solicitors will incorporate the necessary GDPR clauses into the framework and call-off terms and conditions</p> <p>2. Customer details are held in a CRM system called Foundations Case Manager; this is a secure software which is only accessible by members of the DFG Team</p>
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	Risk description & risk owner	Original score (RYG)	How we manage it	New score (RYG)
A	Unqualified and inexperienced Contractor on site – Health & Safety risks LWMTS DFG Manager	Likelihood: Yellow Impact: Red Severity of Risk: Red	Carry out procurement process and award contract to complaint and qualified Contractor – evidence of qualifications, accreditations and previous experience including case studies to be submitted as part of the process.	Likelihood: Green Impact: Yellow Severity of Risk: Yellow
B	Noncompliance with PCR 2015 / Procurement Act 2023	Likelihood: Yellow Impact: Red Severity of Risk: Red	Procurement process will be in accordance with the relevant legislation. LDC are also seeking external legal support to ensure process is compliant due to value of the Contract.	Likelihood: Green Impact: Red Severity of Risk: Yellow
C	Subsidy control re LWMTS	Likelihood:	LDC will invoice LWM for the relevant set up and	Likelihood:

	income and LDC management costs.	Yellow Impact: Red Severity of Risk: Red	management fees of the Framework to be taken from the income received. Fees will be calculated by hourly rates of the procurement team.	Green Impact: Yellow Severity of Risk: Yellow
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Background documents	N/A
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Relevant web links	N/A
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Fleet Procurement: Joint Waste Service

Cabinet Member for Waste, Recycling, Ecology & Climate Change

Date: 07th May 2024

Contact Officer: Steve Gee, Operations Manager

Tel Number: 01543 308197

Email: Steve.gee@lichfielddc.gov.uk

Key Decision? YES

Local Ward All

Members



Lichfield
District Council

Cabinet

1. Executive Summary

- 1.1 Lichfield District Council currently hosts the fleet contract for the Joint Waste Service and has a contract with Specialised Fleet Services Limited for the provision of refuse collection vehicles. The contract expires on 31st March 2025. The fleet is ageing and requires replacement when the current contract ends to ensure service delivery is maintained. A tendering process is now required to ensure the replacement vehicles are delivered on time.
- 1.2 The Joint Waste Service requires a fleet of 26 refuse collection vehicles to provide collections of household waste (refuse, dry recycling, and garden) to the residents of Lichfield and Tamworth plus collections of Trade Waste and Trade Recycling to businesses in Lichfield. The contract also includes the procurement of 1 Street Cleansing vehicle.
- 1.3 The existing arrangements are based on contract hire and an evaluation has ascertained that this option should still provide the Joint Waste Service with the most economically advantageous outcome compared to other procurement options such as direct purchase. See Appendix 1: March 22 – Link Report.
- 1.4 The intention is to procure a single supplier for the fleet to reduce the costs associated with overseeing and managing / administrating the contract.
- 1.5 The value of the contract is anticipated at a total of £11.6 million and therefore it will need to be tendered in accordance with the procurement legislation and Contract Procedure Rules.

2. Recommendations

2.1 It is recommended that Cabinet approve:

- The commencement of the procurement through a contract hire arrangement for the replacement of the vehicle fleet for the Joint Waste Service.
- As soon as full evaluation of the procurement documentation is completed, a paper is presented to allow Cabinet to authorise the appointment of the supplier that provided the highest scoring tender.

3. Background

- 3.1 Lichfield District Council currently hosts the fleet contract for the Joint Waste Service and has a contract with Specialised Fleet Services Limited for the provision of refuse collection vehicles. The original contract length was 6 years 2 months and was extended for a further 2 years in April 2023. The contract expires on 31st March 2025.
- 3.2 The Joint Waste Service requires a fleet of 26 refuse collection vehicles to provide collections of household waste (refuse, dry recycling, and garden) to the residents of Tamworth and Lichfield plus collections of Trade Waste and Trade Recycling to businesses in Lichfield. The contract also includes the procurement of 1 Street Cleansing vehicle.
- 3.3 Tamworth Borough Council will co-host the new contract with Lichfield District and share any risks and liabilities. Costs are shared between the two Councils, with the allocation of costs being based on property counts of the two Councils. This can vary year on year, but is around 60/40%, with Lichfield being the larger Authority.
- 3.4 In awarding a 'contract hire arrangement for vehicle fleet' there is a need to balance cost and quality appropriately to ensure the Joint Waste Service obtains best value for the correct level of service, with a professional reputable company. To achieve this a balanced award criteria will be used that takes account of price, quality of service and social value. A full breakdown of the scoring mechanism is listed in the Legal Implications section of the report.

Supplier Questionnaire and Declarations	Pass / Fail
Pricing Schedule	60%
Quality Questionnaire inc. Social Value	30%
Social Value	10%

- 3.5 A report from the Link Group, completed in March 2022 recommended the Joint Waste Service use the Contract Hire Options. See Appendix 1. The report concluded:
Contract hiring the refuse collection vehicles provides the Council with a greater degree of certainty of costs over each of the respective retention terms, transferring many of the risks of ownership to the lessor. Under certain scenarios it is possible to draw a conclusion the Council could save money by purchasing the required refuse collection vehicles, however the flexing of the input variables to such an extent carries risk for the Council. Of far greater certainty from the appraisals is the identification that contract hiring the assets over the longest retention term, 7 years, represents the best value to the Council.
- 3.6 Under a contract hire agreement the supplier has full responsibility for providing and maintaining the vehicles in return for a fixed monthly cost which is paid for the duration of the contract. In effect the supplier takes all the risks associated with financing and maintaining the vehicles plus their disposal at the end of the contract.
- 3.7 Prior to an award being made to the successful contractor, flexibility in the total number of vehicles ordered remains. The tender requests 27 vehicles, but the option exists to award a total number that suit the Councils final requirements and budgets, i.e. 26 vehicles.
- 3.8 Whilst the contract ties the Council into the agreed number of vehicles for the duration of the contract, a successful contract hire relationship is likely to provide a degree of flexibility for future years to enable an increase or decrease in the fleet size, as service requirements change (i.e. a reduction in RCV's due to

lower residual waste tonnage following food waste implementation / an additional RCV due to property growth).

- 3.9 The intention is to procure a single supplier for the fleet to reduce the costs associated with overseeing and administering the contract. The fleet specification includes new round management equipment, CCTV cameras and other vehicle telemetry. This means that the fleet provider will be responsible for supplying and maintaining all this equipment as well as the vehicle.
- 3.10 The new contract will be let for seven years, with an option to extend for a further seven years (subject to further Cabinet approval). The seven-year period represents the best financial value to the Council, as it allows the capital costs to be absorbed over a longer period and is of the correct length that maintenance costs do not become excessive.
- 3.11 The Council could consider a number of options for sourcing / funding the vehicles and maintenance arrangements. These are summarised in the 'Alternative Options'.
- 3.12 It is anticipated that the Joint Waste Service will introduce weekly food waste collections in April 2026. This will require the introduction of approximately 12 additional vehicles. The vehicles required for the Food Waste service **have not** been included as part of this procurement.
- 3.13 The Department for Environment, Food and Rural Affairs (Defra) have provided capital transitional costs for the introduction of weekly food waste collections to both Lichfield District Council and Tamworth Borough Council. The amounts provided are summarised:

	Food Caddies	Food Waste Vehicles	Totals
Lichfield District Council	£313,243	£818,400	£1,131,643
Tamworth Borough Council	£225,696	£409,200	£634,896
Total	£538,939	£1,227,600	£1,766,539

- 3.14 The rationale for not including food waste vehicles in this procurement are:
- 3.14.1 The lead times for the introduction of the food waste service is too long to be ordering vehicles now, as it will not be introduced until April 2026. A competitive price for the vehicles would be highly unlikely to be obtained if delivery were planned for April 2026.
- 3.14.2 Defra have provided the FULL capital budget to outright purchase the vehicles. It is logical to use these funds to outright purchase the vehicles, and to make maintenance arrangements at the point of going to market for the vehicles.
- 3.14.3 Contract hire prices have been obtained from the Contract Hire using soft marketing. The prices quoted were extremely expensive. Experience of operating 7.5t food waste vehicles clearly indicate that the ongoing maintenance costs does not justify the contract hire prices provided. The vehicles are far simpler to maintain than traditional Refuse Collection Vehicles, and relatively low maintenance costs will be achieved.
- 3.14.4 The Joint Waste Service are also exploring procuring these vehicles along with other Councils within the Staffordshire Waste Partnership. This will have the advantages of providing economies of scale as there is the potential to procure far larger number of vehicles.

Alternative Options

1. To extend the current contract for up to an additional 4 years. Not recommended as the current fleet is past its economic life and the reliability of the fleet is likely to severely effect service delivery. The current contractors have stated they would not support a further extension of the current fleet. Over a 4-year period a new fleet would be unaffordable, significantly overspending against available budget.
2. The feasibility of introducing alternative technologies has been considered. The Council has a target to fully decarbonise all waste fleet as soon as practicable and to achieve the **Lichfield District Council target of zero carbon emissions by 2035**. To achieve this requires a deliverable plan, including appropriate budget, to allow a successful transition to alternative vehicle technology. Currently the Council is not well positioned to deliver this and should consider major change for future fleet replacement. Factors to consider include:
 - a. The initial capital investment required for an electric fleet. As an example, an electric RCV costs £440,000 compared to £220,000 for a diesel equivalent. As an estimate the expected contract value of £11.6 million would increase to £18million if electric vehicles were introduced where available.
 - b. There are currently no electric options for certain types of vehicles the Council require, i.e. there is not an electric twin-pack RCV on the market.
 - c. Considerable investment is required to transform the current depot to be capable of charging a fully electric fleet. An electric supply would need to be secured, infrastructure installed, plus the footprint for parking of electric vehicles increases 1.5m per vehicle which adds pressure on depot space.
 - d. A feasibility study is recommended to address the opportunities a fully electric fleet provides. This would aid in building a business case for adaption at a later date.
 - e. Hydrogen RCV technology is in its infancy and is expensive. A single RCV would cost £750k, plus there is currently limited fuelling infrastructure available locally.
3. The Council could consider a number of options for sourcing / funding the vehicles and maintenance arrangements. These include
 - Direct Purchase
 - Internal Borrowing
 - External Borrowing
 - Operating Lease
 - Finance Lease
 - Maintenance Arrangements
 - In-house (no facilities, equipment, or experience)
 - Out-source (using Reliant Way as base)
 - Out-source (using contractor premises)

A series of options focussed on purchase (funded by borrowing) and contract hire using a whole life cost basis were developed by Link. The outcome of the financial modelling is shown in detail at **APPENDIX 1** and in summary below:

Summary of cashflows

	62-month term	72-month term	84-month term
Purchase	£7,231,941	£7,871,165	£8,598,192
Contract hire	£6,612,292	£7,395,493	£8,503,693

Summary of cashflows (PV)

	60-month term	72-month term	84-month term
Purchase	£6,726,317	£7,093,130	£7,859,568
Contract hire	£5,978,974	£6,795,009	£7,684,940

The purchase-based options have been ruled out, based on substantially higher risk to front line service delivery and end of contract costs. In addition, the option would also require greater management resource and control of the contract and the fleet.

It is possible that an outright purchase would deliver a small saving, although the risk to the Council will increase significantly.

- East Staffs Borough Council made a 'potential' small saving 2 years ago by changing from contract hire to outright purchase and contracting out the maintenance. However, they only received two bids to provide maintenance. It is probable their decision was also shaped by previous experience of a contract hire company going out of business and the risk that posed to their operations.
- Outright purchase options would increase the total number of vehicles required from 26 RCV's to a minimum of 29 RCV's to allow 'spare' vehicles. This would be x1 26t RCV, x1 Twin-pack for recycling & x1 smaller vehicle for tight access areas. Even with these additional 'spare' vehicles the JWS would significantly increase its reliance on 'spot-hire' vehicles.

Consultation

1. Following recent trials of a variety of refuse vehicles available on the market there has been consultation with front line staff to ascertain the most suitable vehicles for our requirements.
2. Consultation with vehicle suppliers and contract hire companies to identify all the options available to the Joint Waste Service.
3. Consultation with our partner in the Joint Waste Service from Lichfield District Council and Tamworth Borough Council.

Financial Implications

1. The impact of the fleet procurement on the Joint Waste Budget will not be fully known until the tenders are returned. However, assuming the contract hire tenders are in line with prices obtained from the soft market testing then the likely budget position within the Joint Waste Service is summarised.
2. The total costs are shared between Lichfield District Council and Tamworth Borough Council, based on property numbers. This varies year on year but is approximately 60% Lichfield District Council and 40% Tamworth Borough Council.
3. The length of the contract is anticipated as being 7-years (plus an option to extend for a further 7-years). The anticipated cost of a 7-year contract is £11.6million.
4. The anticipated cost of the contract per year is £1.66 million.
5. The costs for an extension are unknown at this stage, but any extension would be subject to a later Cabinet decision.

The budgetary position is summarised in the table below:

	Approved MTFs			Further projections				Total £000s
	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Approved Budget	£1,660	£1,660	£1,660	£1,660	£1,660	£1,660	£1,660	£11,620
Projected Contract	£1,660	£1,660	£1,660	£1,660	£1,660	£1,660	£1,660	£11,620
Budgetary Shortfall	£0	£0	£0	£0	£0	£0	£0	£0
Tamworth BC (40%)	£664	£664	£664	£664	£664	£664	£664	£4,648
Lichfield DC (60%)	£996	£996	£996	£996	£996	£996	£996	£6,972

The capital grant received for both authorities to support the introduction of Food Waste will be added to the Capital Programme in the future as a separate project.

Approved by
Section 151
Officer

Yes

Legal Implications

1. Financial regulations. Full involvement of Procurement team throughout process.
2. Tender documentation evaluated by Legal team.
3. Compliance with Council's Good Vehicle Operators Licence.
4. In awarding a 'contract hire arrangement for vehicle fleet' there is a need to balance cost and quality appropriately to ensure the Joint Waste Service obtains best value for the correct level of service, with a professional reputable company. To achieve this the award criteria set in the tender documentation is as follows:

Supplier Questionnaire and Declarations	Pass / Fail
Pricing Schedule	60%
Quality Questionnaire inc. Social Value	40%

- a. The Quality Questionnaire inc Social Value equates to 40% of the total for the award and is broken down into the following sections:

Quality Questionnaire inc. Social Value (40% of total)	100%
Contract Management	5%
Mobilisation Plan	15%
Service Delivery and Continuity	35%
Fair Wear and Tear Policy and Vehicle Return	5%
Added Value	5%
Social Value, Environment and Community	20%
Health & Safety	15%

Approved by
Monitoring Officer

Yes

Contribution to the Delivery of the Strategic Plan

1. The report supports delivery of the strategic plan of 'together we will create the greenest district in the country through an increase in the rate

	<p>of recycling in the district to more than 65%, whilst reducing our overall waste’.</p> <p>2. The report supports delivery of the Strategic Plan by ensuring the effective management of fleet for our Joint Waste Service. Not providing these options will undermine delivery of the agreed MTFs and breach our obligation to be a well-run Council.</p>
Equality, Diversity and Human Rights Implications	1. None
EIA logged by Equalities Officer	Yes/no* Equalities Officer confirmed not required.
Crime & Safety Issues	1. There are no crime and safety issues arising from the contract hire of fleet.
Data assessment	1. Household figures for both Lichfield District Council and Tamworth Borough Council have been reviewed and taken account of.
Environmental Impact (including Climate Change and Biodiversity).	1. A new replacement fleet will support creating greener communities. New vehicles will achieve lower carbon due to modern cleaner engines and increased fuel consumption. All vehicles will have the ability to run on Hydrotreated Vegetable Oil (HVO). This is a stage in a transformation to an alternatively fuelled fleet.
GDPR / Privacy Impact Assessment	1. There are no GDPR/privacy implications arising specifically from this report.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	Contract hire prices are submitted at a higher rate than provided for in the budget.	Yellow (material) the Likelihood (Yellow) and Impact Assessment (Yellow).	Close monitoring of tenders and budgets. Soft market testing has already been carried out.	Yellow (material) the Likelihood (Green) and Impact Assessment (Green)
B	Chosen contractor fails to deliver the appropriate level of service required.	Yellow (material) the Likelihood (Yellow) and Impact Assessment (Yellow)	Robust contract specification and monitoring. Regular contract review meetings.	Green (material) the Likelihood (Green) and Impact Assessment (Green)
C	Chosen contractor ceases trading.	Red (material) the Likelihood (Green) and Impact Assessment (Red)	Pre-diligence. Robust selection criteria and evaluation.	Green (material) the Likelihood (Green) and Impact Assessment (Green)

D	The new vehicles are not delivered before the end of the existing contracts.	Yellow (material) the Likelihood (Yellow) and Impact Assessment (Yellow)	Early commencement of tendering process with a long immobilisation period. Step in arrangements specified in contract. The contract will make the chosen contractor responsible for spot hiring replacement vehicles in the interim period.	Green (material) the Likelihood (Yellow) and Impact Assessment (Green)
E	Deterioration of the existing service should the existing contractors fail to be awarded the new contract.	Yellow (material) the Likelihood (Yellow) and Impact Assessment (Yellow)	Maintenance of a good working relationship with the existing suppliers. Enforcement of current contract T&C's & remedies.	Yellow (material) the Likelihood (Green) and Impact Assessment (Yellow)

Background documents	Any previous reports or decisions linked to this item Appendix 1: March 22 – Link Report
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Relevant web links	Any links for background information which may be useful to understand the context of the report
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Lichfield District Council

Date: 23rd March 2022

Replacement Refuse Collection Vehicles, funding appraisal, report

Prepared by
Link Group

Specialists in Public Sector Financial
Advisory Services

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www.lnkgroup.com

Part of **Link Group**

2

Executive Summary

Introduction

Lichfield District Council (the Council) instructed Link Treasury Services Limited (Link) to appraise the alternative funding options of the required replacement refuse collection vehicles (RCVs).

Vehicle Type	Description of vehicle
A2	26-tonne single compartment RCV
C	26-tonne twinpack RCV
B	18-tonne single compartment RCV

Summary

The Council currently contract hire their refuse collection vehicles from Specialist Fleet Services Limited (SFS). This dates from a procurement exercise conducted by the Council in 2015. The contract award mobilisation went live in February 2016, with an initial term of 74 months. Under the 2016 procurement exercise, the Council has the option to extend for a further 74 months, to run until May 2028, at its sole discretion.

The Council wish to appraise the value-for-money of exercising a 74-month contract extension and compare to alternative funding methods and alternative contract terms.

Link have appraised the SFS 62-month lease extension proposal and compared it to proposals from SFS of longer terms, 6 years and 7 years. Additionally, Link have appraised the likely costs of the Council purchasing the required vehicles. These purchase costs not only cover the initial acquisition costs but also the anticipated in-life maintenance costs for the three respective terms, 62 months, 6 years and 7 years. A degree of sensitivity analysis has been conducted too, to capture some of the potential variables in maintaining a fleet of RCVs for 5, 6 and 7 years.

Conclusion

Contract hiring the RCVs provides the Council with a greater degree of certainty of costs over each of the respective retention terms, transferring many of the risks of ownership to the lessor, SFS. Under certain scenarios it is possible to draw a conclusion the Council could save money by purchasing the required RCVs, however the flexing of the input variables to such an extent carries risk for the Council. Of far greater certainty from the appraisals is the identification that contract hiring the assets over the longest retention term, 7 years, represents the best value to the Council.

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www.linkassetservices.com

Overview

Who are Link?

Link provide impartial and reliable advice on asset finance. We pride ourselves on being completely independent of any vehicle manufacturer, supplier, leasing company or funding stream. We regularly assist our clients with the acquisition of technology, vehicle, plant, equipment and machinery assets and provide advice on the most prudent form of funding for asset acquisitions in line with The Prudential Code.

We manage relationships with a national and international market leading panel of third-party funders ensuring that we are able to offer our clients the best possible funding, via OJEU compliant lease procurement frameworks.

What is the purpose of this report?

The Council requested Link to review the alternative methods by which they might fund potential replacement fleet assets. The core aim of the project was to: -

- Identify alternative manufacturers capable of supplying vehicles that broadly match the Council's drafted specification requirements.
- To assess the procurement and finance options available for the replacement of the HGV fleet used by the Joint Waste Service and Streetscene
- Obtain indicative discounted capital cost figures for those vehicles.
- Appraise the alternative funding options for those assets across a range of retention terms.
- Provide a summary of conclusions and findings as to the most cost-effective method of funding the proposed replacement fleet.

Our Approach

We have prepared this report to assess the key funding options open to the Council for forthcoming replacement refuse collection vehicles, and will look at the pros, cons and associated costs of outright purchase versus contract hiring them.

A contract hire agreement is a combined lease and maintenance package. The lessor, SFS, provides the vehicles to the Council and maintains them at their expense, in exchange for an annual rental. Many councils choose this method of supply/maintain, particularly those seeking certainty over costs and those with limited in-house vehicle maintenance resources.

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Alternatively, many other councils choose to repeatedly buy their required RCVs and maintain them in-house at their own expense. It is this comparison Link have been tasked with reviewing, whether there are cost differences between contract hiring the required replacement RCVs or buying them?

Details of fleet requirement

The Council has a requirement for 12 x single compartment 26-tonne RCVs, 8 x twinpack 26-tonne RCVs and 3 x 18-tonne single compartment vehicles. Under the proposal from SFS, the Council will be provided with 3 spare vehicles, one of each category. The spares are permanently available to the Council, are permanently located at the Council depot, are exclusive to the Council, and are used to maintain operational integrity during periods of vehicle downtime. In essence, the fleet consists of 26 vehicles.

For the purposes of this analysis Link have assumed the Council will purchase 26 vehicles (13+9+4) to mirror the offering from SFS.

There are several major manufacturers of RCVs in the UK, of which Dennis Eagle has the largest market share at approximately 68%. The current fleet of RCVs are Dennis Eagle and the Council have identified they wish to have a solus Dennis Eagle fleet for the new replacements. SFS have confirmed their appetite is consistent with this and their choice too is to supply and maintain Dennis Eagle RCVs. This report hasn't reviewed the other alternative RCV manufacturers. However, substituting one manufacturer for another is not considered to have any material impact on the outcome and the ultimate decision selected by the council with regards to chosen funding method; the values might change but the decision how to fund would be consistent across manufacturers. The Council's choice of a solus Dennis Eagle RCV fleet is not inconstant with many other authorities, as evidenced by their dominant market share.

Dennis Eagle were approached to submit quotations to supply the required vehicles. This quote request was issued under the Halton Housing Fleet Framework (OJEU ref 2020/S 110-268523). Link are the appointed treasury and leasing advisors to Halton Housing and have been since their Large-Scale Voluntary Transfer from Halton Borough Council in 2005. Link tendered the above mentioned fleet framework on behalf of Halton Housing and manage it. The received quotations were as follows:

Vehicle Type	Description of vehicle	Discounted purchase price (exc VAT)
A2	26-tonne single compartment RCV	£182,113
C	26-tonne twinpack RCV	£215,225
B	18-tonne single compartment RCV	£164,060

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Electric Vehicles

This funding analysis has been on the above vehicles, each of which has a diesel powertrain. A fully electric alternative RCV is available in vehicle category A2. No electric alternative is available from Dennis Eagle in vehicle category B or C. The electric vehicle option for category A2 has been discounted by the Transport Team, citing concerns with vehicle range and charging infrastructure. The location of the depot is on the fringes of the Council footprint, resulting in frequent lengthy vehicle journeys being undertaken prior to residents' bins being emptied. The daily range of an electric RCV is approximately 70 miles. It is unlikely electric RCVs could be deployed into operational service and be fully utilised. Yes, some collection rounds fall within the 70-mile daily range but not a full week of rounds. Unless an electric RCV is utilised 5 days per week, by implication, a diesel RCV is required on the other days. The second issue highlighted by the Transport Team relates to charging infrastructure. A considerable amount of charging infrastructure would be required prior to introducing a fleet, or partial fleet of electric RCVs. The current fleet is aged and requires replacement. The objective is for new RCVs to commence operational service in April 2023, meaning there is insufficient time to assess the grid network, potentially build a new sub-station, groundworks to site and install charging posts. This is a two-to-three-year project.

For reference, a discounted purchase price was obtained for the electric alternative for vehicle A2, £438,000; an appraisal of the funding options for this vehicle has not been undertaken.

The Funding Options

Internal Borrowing

The assets are purchased utilising the cash supporting the Council's reserves (on a temporary basis which may be replaced by external borrowing at a future date). An opportunity cost will be applied to reflect the loss of investment income year on year (on a basis reflecting our or your interest rate forecasts). The cash flows will reflect the annual principal charge (MRP) with the opportunity cost being calculated on the reducing capital amount, net of MRP.

Pros

- The Council owns the assets from day one
- In the current economic climate, the early cost of using the funds will be lower than an external borrowing option, so there is no cost of carry.
- Reduced counterparty risk
- Complete flexibility on retention of the asset
- Complete flexibility on disposal or upgrade of the assets

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- Equipment can be significantly modified without third party consent

Cons

- Significant day one cash outflow
- Cash can't be used for other activities
- The expenditure is on balance sheet
- The lost opportunity cost. Current economic forecasts suggests that the Bank rate and fixed rates, will rise over time which carries a level of exposure to the Council of interest rate risk when the reserves are replaced with external borrowing
- The Council is liable for the cost of disposal of the asset
- The Council is liable to achieve the sales proceeds anticipated for the asset(s) at the end of the retention period, and must account for these accordingly.

Contract Hire

The assets to be acquired are purchased by a contract hire provider. Over the contract period the Council pays the provider fixed rentals for the use of those assets. At the end of the agreed period the Council can return the assets or extend the hire. This is the method by which the current vehicles are funded.

Pros

- Procurement of the vehicles is undertaken by the contract hire company.
- The Council is able to specify the required assets.
- The risks and rewards of ownership are with the lessor
- The residual investment is incorporated into the rentals payable, meaning the Council pays rentals based on the depreciation of the assets, rather than their full cost
- The Council has no cost obligations to sell the asset or recognise loss/surplus on sale proceeds
- Promotes a discipline to replace assets regularly at the end of the preferred retention period
- In-life vehicle maintenance can additionally be included in the rental, at a fixed price throughout the period
- Interim safety inspections can be incorporated into the maintenance schedule
- Certainty of payments, both finance rental and maintenance rental (if required), throughout contract period.

Cons

- Interest rates tend to be greater than other forms of funding
- Assets need to be returned and therefore need to be tracked during their life
- The Council must ensure the assets are returned in a saleable state and if they do not comply with the return conditions specified in the contract, charges may be levied

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What does Contract Hire suit?

- Fleets without their own workshop facility and/or technicians
- Fleets without maintenance management expertise seeking a 'light touch' regarding day-to-day operational requirements
- Assets that are operationally integral that have regular replacement cycles
- Councils seeking certainty of fixed contractual costs over a specified term

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Funding Assumptions

Assumptions

The alternative methods of funding detailed above are not the only options available to the Council. This analysis will focus on these two and they are at polar opposite ends of the spectrum – internal borrowing and contract hire. There are three further funding methods available:

- External borrowing
- Operating lease
- Finance lease

Each of these further funding methods have largely been discounted by the Council as they present the same vehicle maintenance issues of internal borrowing with no financial advantages. If however, the ultimate decision chosen by the Council is to internally borrow for these vehicles, it might be worth re-visiting all or any of the three above alternatives nearer to the date for the receipt of the new vehicles.

With internal borrowing, all of the rewards of ownership and access to ultra-low funding costs are the Council's. As to however, are the risks of ownership and the volatility in predicting potential in-life maintenance costs. Contract hire provides certainty over the whole-of-contract costs, but generally at a higher interest rate and the surrendering of any potential resale windfalls. The assumed internal borrowing cost is 2.50%.

The rationale for focussing solely on the above two contrasting methods of funding is the Council has been presented with a contract hire proposal from the incumbent contract hire provider, SFS. This proposal is inclusive of a whole-term, fixed price, in-life vehicle maintenance package. Contract hire is the only method of funding able to deliver a single, fixed price, in-life lease inclusive of vehicle maintenance. The Council is attracted to this solution for understandable reasons. It does however wish to review the option of purchasing the RCVs and purchasing a separate repairs & maintenance package.

In-life Assumptions

As previously stated, the contract hire proposal from SFS is a one annual payment for the lease and maintenance of the required RCVs. In attempting to replicate this offering for a vehicle purchase model, it is necessary to make some assumptions as to the likely in-life vehicle costs. These assumptions are detailed as following and are only applicable to a Council purchase model.

Maintenance assumptions

If purchasing the vehicles, the Council will need to maintain them at their own expense. A quotation has been provided by the RCV manufacturer, Dennis Eagle to maintain the vehicles over a 7-yr term. The quotation is £2,466,805.

Non-contractual maintenance spend

The above quotation covers all planned maintenance. Non-planned maintenance spend is charged for separately as and when required by the Council. An example of non-planned maintenance spend is the replacement of a damaged wing mirror. Any additionally work will be charged by Dennis Eagle at the rate of £68/hour, plus parts. The assumption provided by the Transport Team is they will require an additional 500 hours of labour per year. The additional labour rate provided by SFS is a lower figure, £25/hour. The contract with SFS also provides for 200 free hours pa, meaning a reduced number of 300 hours pa are included for budgeting purposes.

Tyre spend

The planned maintenance quotation of £2,466,805 from Dennis Eagle does not include replacement tyres. The Transport Team have provided a forecast estimate for their tyre spend of £65,000 pa.

Mid-life refurbishment

The Transport Team estimate if buying the vehicles, they will need to perform periodic refurbishment of the vehicles. These are estimated to be required at the end of year 3 and the end of year 6. A figure of £36,000 has been provided by the Transport Team at each of these two landmark dates and this has been incorporated into the funding appraisal.

Annual vehicle excise duty

Road fund licence has been incorporated into the analysis. Annual road fund licence is included within the SFS rentals of a contract hire agreement. For parity the cost of annual road fund license needs to be recognised if the Council buy the assets. Annual road fund licence is £300 per vehicle pa. This is not an estimate but may be susceptible to change over time. Any increases in vehicle excise duty are announced in the Budget.

Spot hires

From time to time the Transport Team have a need to spot-hire additional vehicles and a figure of £30,000 pa has been forecast by the Team. If taking contract hire vehicles from SFS, the Transport Team have concluded there is still a potential need for spot hire vehicles but to a lesser extent, a figure of £12,500 pa has been budgeted.

Headcount

The Transport Team at the Council predict they will require one additional FTE to handle the additional workload of self-managing the RCV fleet and an annual figure of £40,000 has been provided to cover salary, NI and pension costs.

Disposal proceeds

If purchasing the RCVs, at end-of-life they will require disposing of. Unlike with contract hire, the proceeds of disposal are entirely the Council's. The disposal proceeds diminish over time and are estimated as follows:

At end of month 62	At end of month 72	At end of month 84
£385,740	£231,444	£138,867

End of contract damage

With purchased assets there is no need to budget for end of contract damage. Any shortfalls in vehicle condition will be demonstrated in the disposal proceeds realised. However, with contract hire there is a contractual obligation to return the assets in a saleable state. Not doing so can result in charges being levied. £1000 per vehicle has been included as a precautionary figure.

Summary of estimated In-life vehicle costs

	Purchase	Contract hire
Maintenance spend	£2,466,805	included
Non-contractual maintenance spend	£34,000 pa	£7,500 pa
Tyre spend	£65,000 pa	included
Mid-life vehicle refurbishment	£36,000 (Yr3 & Yr6)	included
Vehicle excise duty	£7,800 pa	included
Spot hires	£30,000 pa	£12,500 pa
Headcount (1 x FTE)	£40,000 pa	not required
End of contract damage charges	not applicable	£1000 per vehicle

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Whole-life costs

Using all the gathered costs, it is possible to compare the anticipated whole-life costs of purchasing the required fleet of RCVs and compare to contract hiring them from SFS. This has been repeated three times, to reflect the three retention terms under consideration:

- 62 months
- 72 months
- 84 months

The data is as follows

summary of cash flows - 62 months								
		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	month 61 & 62	Total
Purchase	vehicle acquisition costs (26 vehicles)	£4,960,654						
	mid-life refurbishment			£36,000				
	Road fund licenses	£7,800	£7,800	£7,800	£7,800	£7,800	£1,300	
	maintenance (R & M package)	£239,659	£278,540	£287,763	£350,310	£483,770	£67,519	
	tyres	£65,000	£65,000	£65,000	£65,000	£65,000	£10,833	
	additional labour hours purchased @£68/hour	£34,000	£34,000	£34,000	£34,000	£34,000	£5,667	
	spot hires	£30,000	£30,000	£30,000	£30,000	£30,000	£5,000	
	headcount (1 x FTE)	£40,000	£40,000	£40,000	£40,000	£40,000	£6,667	
	sale proceeds (income back into Council)						-£385,740	
Total	£5,377,113	£455,340	£500,563	£527,110	£660,570	-£288,755	£7,231,941	
SFS contract hire	annual lease rental (23 vehicles + 3 spares FOC)	£1,254,766	£1,254,766	£1,254,766	£1,254,766	£1,254,766	£209,128	
	Road fund licenses	included	included	included	included	included	included	
	maintenance	included	included	included	included	included	included	
	tyres	included	included	included	included	included	included	
	additional labour hours purchased @£25/hour	£7,500	£7,500	£7,500	£7,500	£7,500	£1,250	
	spot hires	£12,500	£12,500	£12,500	£12,500	£12,500	£2,083	
	damage charges						£26,000	
Total	£1,274,766	£1,274,766	£1,274,766	£1,274,766	£1,274,766	£238,461	£6,612,292	

summary of cash flows - 72 months								
		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Total
Purchase	vehicle acquisition costs (26 vehicles)	£4,960,654						
	mid-life refurbishment			£36,000				
	Road fund licenses	£7,800	£7,800	£7,800	£7,800	£7,800	£7,800	
	maintenance (R & M package)	£239,659	£278,540	£287,763	£350,310	£483,770	£405,113	
	tyres	£65,000	£65,000	£65,000	£65,000	£65,000	£65,000	
	additional labour hours purchased @£68/hour	£34,000	£34,000	£34,000	£34,000	£34,000	£34,000	
	spot hires	£30,000	£30,000	£30,000	£30,000	£30,000	£30,000	
	headcount (1 x FTE)	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	
	sale proceeds (income back into Council)							-£231,444
	Total	£5,377,113	£455,340	£500,563	£527,110	£660,570	£350,469	£7,871,165
SFS contract hire	annual lease rental (23 vehicles + 3 spares FOC)	£1,208,249	£1,208,249	£1,208,249	£1,208,249	£1,208,249	£1,208,249	
	Road fund licenses	included	included	included	included	included	included	
	maintenance	included	included	included	included	included	included	
	tyres	included	included	included	included	included	included	
	additional labour hours purchased @£25/hour	£7,500	£7,500	£7,500	£7,500	£7,500	£7,500	
	spot hires	£12,500	£12,500	£12,500	£12,500	£12,500	£12,500	
	damage charges							£26,000
	Total	£1,228,249	£1,228,249	£1,228,249	£1,228,249	£1,228,249	£1,254,249	£7,395,493

summary of cash flows - 84 months									
		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Total
Purchase	vehicle acquisition costs (26 vehicles)	£4,960,654							
	mid-life refurbishment			£36,000			£36,000		
	Road fund licenses	£7,800	£7,800	£7,800	£7,800	£7,800	£7,800	£7,800	
	maintenance (R & M package)	£239,659	£278,540	£287,763	£350,310	£483,770	£405,113	£421,650	
	tyres	£65,000	£65,000	£65,000	£65,000	£65,000	£65,000	£65,000	
	additional labour hours purchased @£68/hour	£34,000	£34,000	£34,000	£34,000	£34,000	£34,000	£34,000	
	spot hires	£30,000	£30,000	£30,000	£30,000	£30,000	£30,000	£30,000	
	headcount (1 x FTE)	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	£40,000	
	sale proceeds (income back into Council)								-£138,867
Total	£5,377,113	£455,340	£500,563	£527,110	£660,570	£617,913	£459,583	£8,598,192	
SFS contract hire	annual lease rental (23 vehicles + 3 spares FOC)	£1,191,099	£1,191,099	£1,191,099	£1,191,099	£1,191,099	£1,191,099	£1,191,099	
	Road fund licenses	included	included	included	included	included	included	included	
	maintenance	included	included	included	included	included	included	included	
	tyres	included	included	included	included	included	included	included	
	additional labour hours purchased @£25/hour	£7,500	£7,500	£7,500	£7,500	£7,500	£7,500	£7,500	
	spot hires	£12,500	£12,500	£12,500	£12,500	£12,500	£12,500	£12,500	
	damage charges							£26,000	
	Total	£1,211,099	£1,211,099	£1,211,099	£1,211,099	£1,211,099	£1,211,099	£1,237,099	£8,503,693

The above tables are the cashflows of the whole-life costs of replacing the RCV fleet. These cashflows have also been reviewed on a present value (PV) basis over the three respective retention terms.



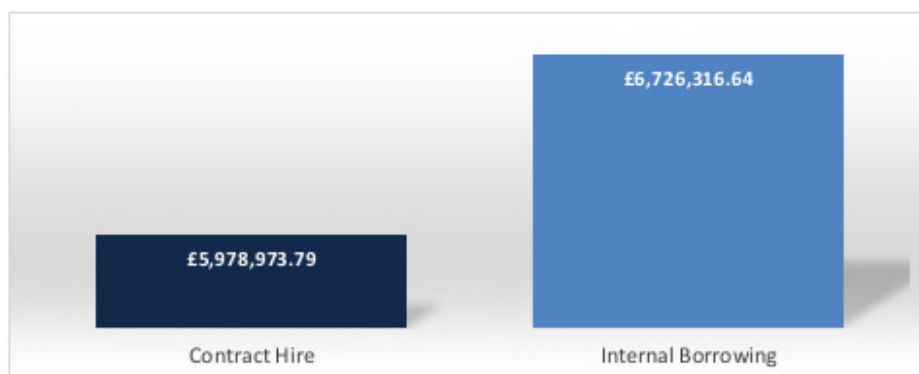
Options Appraisal - Vehicles

Equipment	26 RCVs
Date	11 March 2022
Capital Cost	£4,960,654.00
Term	5 Years
Discount Rate	3.50%

COMPARISON

	Contract Hire	Internal Borrowing
Present Value of Contracted Cash Flows	£5,957,082.49	£7,051,099.75
Unguaranteed Residual Value / Sales Proceeds	Not stated	£385,740.46
Penalties / Cost of Sale	£26,000.00	£0.00
Rental	£1,254,766.00	Variable
Maintenance Costs	Included	£486,993.40
First Registration Fee	Included	£1,430.00
Road Fund Licence	Included	£7,800.00
Present Value inc. Penalties / Cost of Sale	£5,978,973.79	£6,726,316.64
Annual Periodic Payment	£1,254,766.00	Variable - Reducing
Frequency of Payments	Annual	Annual
Payment Profile	Advance	Arrears
Total Annual Payments	£1,274,766.00	Variable - Reducing
Total Cash Payments	£6,399,830.00	£7,413,129.59
Interest Rate	15.94%	2.50%
Lease Classification	Finance Lease	n/a

Graph of Present Value inc. Penalties / Cost of Sale



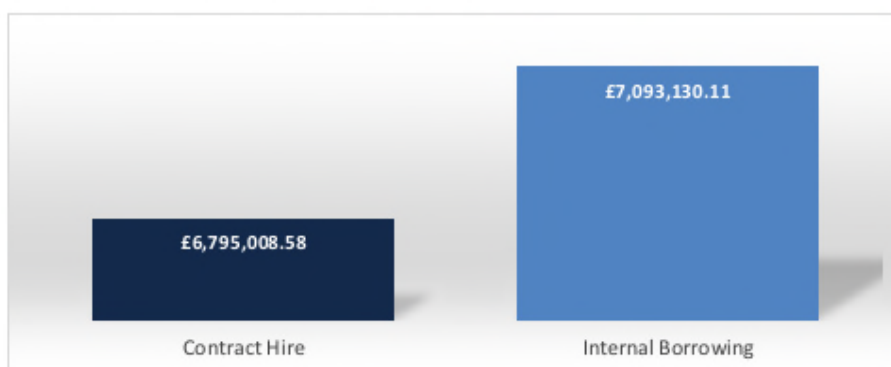
Options Appraisal - Vehicles

Equipment	26 RCVs
Date	11 March 2022
Capital Cost	£4,960,654.00
Term	6 Years
Discount Rate	3.50%

COMPARISON

	Contract Hire	Internal Borrowing
Present Value of Contracted Cash Flows	£6,773,857.57	£7,281,409.95
Unguaranteed Residual Value / Sales Proceeds	Not stated	£231,444.00
Penalties / Cost of Sale	£26,000.00	£0.00
Rental	£1,208,249.00	Variable
Maintenance Costs	Included	£458,644.17
First Registration Fee	Included	£1,430.00
Road Fund Licence	Included	£7,800.00
Present Value inc. Penalties / Cost of Sale	£6,795,008.58	£7,093,130.11
Annual Periodic Payment	£1,208,249.00	Variable - Reducing
Frequency of Payments	Annual	Annual
Payment Profile	Advance	Arrears
Total Annual Payments	£1,228,249.00	Variable - Reducing
Total Cash Payments	£7,395,494.00	£7,954,132.23
Interest Rate	19.35%	2.50%
Lease Classification	Finance Lease	n/a

Graph of Present Value inc. Penalties / Cost of Sale



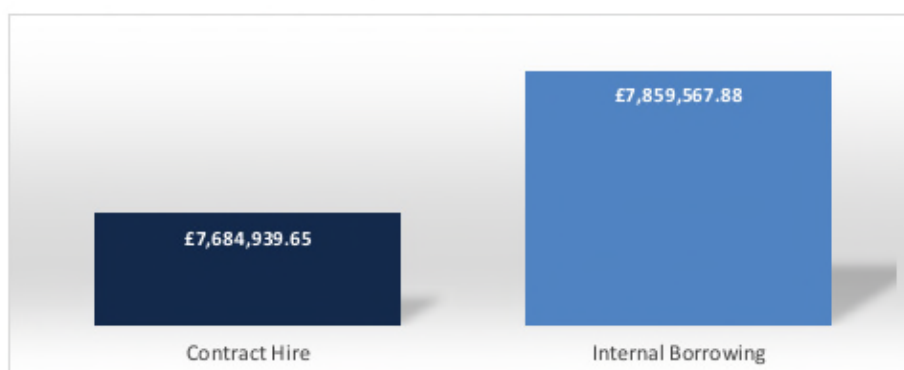
Options Appraisal - Vehicles

Equipment	26 RCVs
Date	11 March 2022
Capital Cost	£4,960,654.00
Term	7 Years
Discount Rate	3.50%

COMPARISON

	Contract Hire	Internal Borrowing
Present Value of Contracted Cash Flows	£7,664,503.88	£7,968,716.08
Unguaranteed Residual Value / Sales Proceeds	Not stated	£138,867.00
Penalties / Cost of Sale	£26,000.00	£0.00
Rental	£1,191,098.94	Variable
Maintenance Costs	Included	£514,471.43
First Registration Fee	Included	£1,430.00
Road Fund Licence	Included	£7,800.00
Present Value inc. Penalties / Cost of Sale	£7,684,939.65	£7,859,567.88
Annual Periodic Payment	£1,191,098.94	Variable - Reducing
Frequency of Payments	Annual	Annual
Payment Profile	Advance	Arrears
Total Annual Payments	£1,211,098.94	Variable - Reducing
Total Cash Payments	£8,503,692.61	£8,965,952.40
Interest Rate	22.46%	2.50%
Lease Classification	Finance Lease	n/a

Graph of Present Value inc. Penalties / Cost of Sale



Summary of cashflows

	62-month term	72-month term	84-month term
Purchase	£7,231,941	£7,871,165	£8,598,192
Contract hire	£6,612,292	£7,395,493	£8,503,693

Summary of cashflows (PV)

	60-month term	72-month term	84-month term
Purchase	£6,726,317	£7,093,130	£7,859,568
Contract hire	£5,978,974	£6,795,009	£7,684,940

Review of input data

The above outputs present a compelling financial argument for the chosen funding method for the required replacement RCV fleet. At this point however, it is worthwhile spending some time reviewing the input data. Any changes to the input data will have an impact on the output results and indeed potentially the overall preferred outcome. Link have applied some sensitivity analysis to the inputs.

Questions for internal discussion:

- The funding analysis has been undertaken with anticipated disposal receipts of 8% (62-month term), 5% (72-month term), 3% (84-month term). Would the Council consider taking on more risk in relation to anticipated disposal receipts? An increase to 20%, 14% and 5% respectively will deliver parity between the two alternative funding options. Any changes to anticipated disposal receipts carry risk for the Council if they are not ultimately attained, and changes should only be made if there is genuine belief they are attainable.
- Mathematical parity across the two funding alternatives can similarly be achieved by reducing some of the forecasts for likely in-life costs incurred associated with ownership of the assets .e.g. reducing the anticipated number of non-contractual labour hours from 500pa to 250pa (for 84-month retention). It is for the Transport Team to decide whether this is achievable but once again, there are risks associated with under-estimating in-life maintenance costs. An array of other scenarios for attaining mathematical parity can be found in Appendix A.

Next Steps

The Council has a requirement to replace its RCV fleet of vehicles. Using the inputs provided the analysis points towards the contract hire of the vehicles to be the more financially attractive. The contract hire rates have been provided by the incumbent provider, SFS. There is an option available from the 2015 Council procurement exercise to award a contract extension to SFS for 62-months commencing in April 2023. However, the numbers point towards a 72-month or an 84-month contract award as better value-for-money. An award of these terms is not permitted under the 2015 tender award, 62 months is the maximum. Instead, an award could be made to SFS outside of the terms of the 2015 tender award.

The Halton Housing Fleet Framework is managed by Link and Lot 2 is for the contract hire of specialist and heavy vehicles. This Framework was tendered in November 2020 and details can be found in Appendix B. SFS submitted a thorough and excellent tender response and are a provider on Lot 2 of this Framework. Their response scored very well at evaluation and SFS are the #1 ranked provider on Lot 2. The feedback from the Council mirrors this assessment and SFS are performing as desired with the current Council contract. The Halton Housing Fleet Framework allows for Direct Award to the #1 ranked provider on each Lot. If the Council chooses, it could Direct Award a contract for 72-months or 84-months to SFS via call-off from the Halton Housing Fleet Framework.

The alternative to Direct Award, is call-off by Further Competition. The Council has received contract hire rates from SFS, but not from any other provider. This is a niche area and the number of providers that operate in this space (the supply and maintenance of RCVs + staffed on-site workshops) is restricted to three major providers in the UK; SFS and Go-Plant Fleet Services and NRG Fleet. There are five major fleet procurement Frameworks in the UK and if the Council had an appetite to conduct a further competition it would first need to select its chosen Framework and then draft/issue a further competition under its selected Framework. Link could assist with both these pieces of work and would quote accordingly if requested.

The question is what would be achieved by conducting a further competition for the contract hire of the RCVs? The foremost reason for doing so would be to benchmark the contract hire rates submitted by SFS. But only if multiple bids were received. As previously mentioned, this is a market with only three major providers. Go Plant Fleet Services appear to be retracting from this market and focussing instead on their operated sweeper operation. Moreover, none of the client references on their website are from public sector organisations <https://www.go-plant.co.uk/>. A similar scan of the NRG Fleet website results in having to go back to October 2018 for the latest mention of a local authority contract win <https://nrgriverside.com/this-is-yet-another-test-news-post/>

Lead Times

The current contract expires at the end of March 2023 and the current vehicles are aged and presenting increasing reliability issues for the Transport Team. The lead time for new RCVs is approximately 8 months. Regardless of the Council's selected funding method, it would do well to ensure new RCVs are on order by the end of the end of July 2022 to attain comfort the assets will be delivered in time for 1st April 2023 mobilisation.

Closing thoughts

The current contract with SFS commenced in February 2016 and appears to be running satisfactorily. There is much to be said for consistency. There were many good reasons why a contract extension facility was included in the Council's 2015 procurement tender. Having already exercised a 1-year extension, (April 2022-March 2023) there is a further 62-month extension available. However, whilst the 62-month contract extension represents good value-for-money when compared to buying the RCVs, both the 72-month offer and the 84-month offer are better value-for-money. Could they be beaten however? Would either NRG Fleet or Go Plant Fleet Services submit superior offers? Would they even bid? Only by drafting and issuing a tender could the Council obtain answers to these very significant questions. It should be noted, if this is the selected path, these take time to prepare. Firstly, the Council would need to select a Framework by which to send out its tender. All this will take many months, perhaps 6 – 8 months, by which time the deadline of July 2022 for securing new vehicles by April 2023 would have passed. Could SFS be approached for a short-term extension beyond April 2023? They have been informally asked. Their reply was guarded, "it'll depend upon the condition of the current aged vehicles at that time". SFS haven't said as much, but it is realistic to presume their view would also depend on the Council's selected path for its new replacement fleet. Much to consider.

End.

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