

ABERDEEN CITY COUNCIL

COMMITTEE	Enterprise, Planning and Infrastructure
DATE	18 January 2011
DIRECTOR	Gordon McIntosh
TITLE OF REPORT	Investment in Vehicle Fleet
REPORT NUMBER:	EPI//11/040

1. PURPOSE OF REPORT

The purpose of this report is to highlight to the Committee the urgent requirement to address the consequences of a lack of investment in the Council's vehicle fleet and plant and to seek approval to proceed with the modernisation of the fleet by means other than the outright purchase of vehicles. The report gives details of the options available for financing this investment.

2. RECOMMENDATION(S)

It is recommended that the Committee:

- i) approves the updated strategic approach to modernise the fleet to bring its age profile down to manageable levels in line with industry standards.
- ii) refers the report to the Finances and Resources Committee with the recommendation that it instructs the Service to progress with the Central Procurement Unit the investigation of alternative means of financing the required investment through revenue expenditure and the selection of the most cost-effective option.

3. FINANCIAL IMPLICATIONS

Approval of the recommendations of this report will enable the Service to commence the process that will lead to the replacement of vehicles currently outwith their effective lives. This will amount to 30 heavy vehicles (over 7.5 tonnes Gross Vehicle Weight) and 223 other vehicles as at 1 April 2011.

Whether the preferred method of financing these replacements is through leasing or contract hire the main financial implications are as follows:

- i) the variable cost of vehicle maintenance and repair will be reduced. This currently amounts to £2.1 million per annum. Analysis of a sample of vehicles of different types indicates that for both heavy and light vehicles, maintenance and repair costs for older vehicles are typically 60% higher than those of equivalent vehicles within their useful lives.

The replacement of all vehicles outwith their useful lives is estimated to be capable of producing a saving in repair and maintenance costs of up to £420k per annum.

- ii) the disposal of old vehicles will generate a capital receipt. The value of this is not possible to quantify at this point, being dependant upon a number of factors, but based on recent sale values it could be up to £300k.
- iii) while vehicles are off the road it is often necessary to hire replacements to maintain service continuity. The cost of such hires is currently £300k per annum. It is estimated that this cost would be reduced substantially with the modernisation of the vehicle fleet.
- iv) the estimated initial revenue impact of replacing the numbers of vehicles mentioned above is £2.25 million. This would also be the ongoing annual revenue cost throughout the life of the lease or hire contract. By comparison, the estimated capital cost of these vehicles is £7.5 million and the associated capital repayment and interest cost would average £1.8 million per annum.
- v) The ongoing capital requirement for vehicle replacements would be eliminated. This currently amounts to £1.5 million per annum which is significantly less than is required annually to maintain the age profile previously approved.

4. OTHER IMPLICATIONS

The adoption of the vehicle replacement strategy to apply a 7 year life to heavy goods vehicles and a 5 year life to light goods vehicles will realise the following benefits:

- i) a reduction in the amount of unscheduled repairs, allowing Fleet Services to focus its efforts on carrying out regular servicing and the safety checks required as a condition of the Council's Vehicle Operator's Licence. The current high level of unscheduled repairs is resulting in other works having to be postponed and this carries the risk of the Council failing to meet its legal obligations under the Operator's Licence.

- ii) Older vehicles carry with them a greater risk of failure with consequential reputational implications for the Council. Modernisation of the fleet would help minimise this risk.
- iii) It would improve the fuel efficiency of the fleet and contribute to lowering its carbon footprint by increasing the proportion of vehicles that incorporate the latest technology in fuel efficiency and reduced emissions.
- iv) It will improve the attractiveness of the Council's fleet and its vehicle maintenance operations to prospective partner organisations in any potential joint working or shared service arrangement. The age of the current fleet has already proved an obstacle in ongoing attempts to enter into such an arrangement with Aberdeenshire Council.
- v) It will reduce the requirement for "spare" vehicles. Due to the high incidence of breakdowns, the refuse collection service maintains 14 additional collection vehicles. It is estimated that this could be reduced to 4 spare vehicles if the fleet was updated.
- vi) Less downtime would be incurred by services. Spare parts for old vehicles can be difficult to obtain and this can delay repairs. The service must maintain a number of spare vehicles, hire replacements or suffer reduced productivity while a vehicle is off the road.

Additional benefits will arise directly as a result of leasing or hiring vehicles:

- vii) The Council will have greater flexibility in adapting to changing fleet requirements. Lease or hire agreements can be modified to suit the needs of services.
- viii) The Council will have greater certainty of its vehicle costs as lease or hire agreements will usually require a fixed monthly charge and the removal of older vehicles from the fleet will reduce the variability of repair and maintenance costs over the lives of vehicles. Many of the risks associated with the ownership of vehicles can be transferred to the hirer or lessor. This will result in a higher charge but will be covered by a fixed charge over the term of the agreement.

5. BACKGROUND/MAIN ISSUES

The Council's road-going vehicle fleet currently numbers 605 vehicles, comprising 95 heavy goods vehicles and 510 light goods vehicles. For the past 5 years, the Council has been operating this fleet on the basis

that light goods vehicles are replaced after 7 years and heavy goods vehicles after 9 years.

In June 2006 a report was approved by the Resources Management committee to invest £3.2 million in vehicle replacements per year over the following three years in order to bring the age profile of the fleet to within the required 7 and 9 years.

However the fleet replacement budget has been maintained at £1.5 million per annum for the past 4 years. This in itself has contributed to the ageing of the fleet – over the past 7 years, this budget has allowed for the replacement of an average of 60 vehicles per annum whereas 75 replacements per annum would have been required just to maintain the fleet at its existing age profile.

The cost of maintaining a vehicle rises significantly after 5 years as expensive components such as engines and gearboxes start to fail and result in lengthy and expensive one-off repairs.

By April 2011 the Council will have 30 heavy vehicles over 7 years old and 223 light vehicles over 5 years old. It is estimated that to replace these vehicles by outright purchase would cost in the region of £7.5 million. Given current and expected future borrowing constraints, the outright purchase of these vehicles is impractical.

Apart from the financing issues, the Council's vehicle maintenance operations are struggling to cope with the workload generated by the large proportion of old vehicles in the Council's fleet. This has created a significant risk that the Council will breach the conditions of its Operators Licence. If this did happen it would result in major disruption to Council services and would require considerable time and expense to resolve.

The Council has limited vehicle maintenance resources and the upkeep of old vehicles places a disproportionate burden on these resources. In many cases, the cost of a major repair is in excess of the value of the vehicle but the lack of financial resources to replace the vehicle means that there is often no alternative.

Options available for financing are:

Operating Lease

The main features of this option are:

- i) it offers a low initial outlay of typically three months rental in advance. This is desirable if there is a shortage of available funds for the outright purchase of vehicles.
- ii) it provides certainty of budgeting and cash flow as monthly rentals are fixed over a fixed period, and there is the flexibility to

extend the lease at the end of the initial agreement at a considerably reduced rental.

- iii) as the risks and reward of ownership are retained by the lessor there is no need to account for the vehicles in the Council's financial statements. This contrasts with a finance lease which requires an asset and liability to be provided for in the Balance Sheet which may impact on the Council's overall debt position.

Contract hire

The main features of this option are:

- i) a low initial capital outlay with fixed monthly payments providing certainty of budgeting and cash flows.
- ii) risks involved in running a vehicle fleet including residual values and interest rates can be transferred to a contract hire company.

Operating lease and contract hire agreements can be tailored to include maintenance if required or this function can be carried out by the in-house service.

6. IMPACT

Corporate – the recommendations contained within this report relate directly to the Single Outcome Agreement, specifically in relation to National Outcome 14, which seeks to reduce the environmental impact of our operations, and National Outcome 15, which seeks to deliver high quality services that are continually improving, are efficient and are responsive to changing needs.

In relation to the Community Plan, the proposals will lead to a reduction in greenhouse gas emissions and this is recognised as a priority within the Community Plan.

The proposals also support the 5 Year Corporate Business Plan in delivering a cost-effective and sustainable vehicle maintenance service that will be able to respond quickly and effectively to changing requirements arising from implementation of the plan.

Public - a full equality and human rights impact is not required as a result of this report.

7. BACKGROUND PAPERS

Report on Vehicle Financing Options. G Harper, December 2009.

8. REPORT AUTHOR DETAILS

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