

Name of meeting: Cabinet

Date: July 29th 2014

Title of report: Transport Services – 2 year Capital Investment Vehicle Replacement Programme 2014/15 – 2015/16

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes The overall cost for the programme is £5.154m
Is it in the Council’s Forward Plan?	Yes
Is it eligible for “call in” by Scrutiny?	Yes
Date signed off by Director & name	Jacqui Gedman – 18/07/2014
Is it signed off by the Director of Resources?	David Smith – 21/07/2014
Is it signed off by the Assistant Director - Legal & Governance?	Julie Muscroft – 21/07/2014
Cabinet member portfolio	Councillor C Scott –Place (Investment & Housing)

Electoral wards affected: All

Ward councillors consulted: None

Public or private: Public with private appendix

The Appendix is recommended to be taken in Private because the information contained in it is considered to be exempt information under Part 1 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006, as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information). It is considered that it would not be in the public interest to disclose the information contained in the report as disclosure could potentially adversely affect overall value for money and could compromise the commercial confidentiality of the bidding organisations and may disclose the contractual terms, which is considered to outweigh the public interest in disclosing information including, greater accountability, transparency in spending public money and openness in council decision-making.

1. Purpose of report

To ask Cabinet to consider a 2 year Capital Investment Vehicle Replacement Programme, Members are requested to delegate authority, in accordance with the Council's relevant Financial Procedure Rules dated June 2014, to the Assistant Director – Streetscene and Housing, to manage the implementation of the Vehicle Replacement Programme.

Delegated powers would include the authority to add, slip or delete replacement vehicles during the course of the 2 year programme to enable the effective management of the Replacement Vehicle Programme.

To ask Cabinet to consider amendments to the Council's vehicle replacement policy from a solely age based policy to a joint age based and "whole life costing" policy, in which evidence based data comprising consideration of vehicle use, maintenance, service user's needs and overall cost criteria, is used to develop a bespoke, financially and operationally beneficial process for replacing council vehicles.

2. Key points

The Transport Services – Capital Investment Vehicle Replacement Programme is an investment in the Council's fleet of the future, a fleet that is efficient, effective and provides Value for Money (VFM) for the people of Kirklees. A robust vehicle replacement policy directly supports the effective delivery of services through the provision of a modern, reliable and fit for purpose vehicle fleet.

The Council Transport Services is a total fleet management operation providing procurement, maintenance, utilisation, intelligence and vehicle disposal facility for all services within the council.

The Council has a current vehicle replacement policy which is based on vehicles over 3.5 tonnes being replaced after 7 years and those under 3.5 tonnes being replaced after 5 years.

The updated Capital Plan for the five year period 2014/15 to 2018/19 was previously agreed by Cabinet on 16th July 2014.

In this plan there is an agreed baseline Capital Investment Vehicle Replacement Programme of £2.577m per year from 2014 onwards.

Getting the right vehicle replacement programme is very important as capital funds are not readily available; a critical success factor of the programme is to ensure that we work differently and align a 2 year replacement programme with the Comprehensive Spending Review (CSR) and the Council's medium term financial plan.

If the Council were to replace all of the vehicles aged over 5 or 7 years in 2014 (in line with the existing vehicle replacement policy) it is estimated that the cost would exceed £12m.

The Useful Economic Life (UEL) is the point at which depreciation and maintenance cost per mile meet one another, and provides an indication of the theoretically most economical point at which to dispose of a vehicle

Timely fleet replacement is an essential part of risk management for the council. An aged fleet will increase maintenance costs and vehicle downtime.

Older vehicles are also more at risk of breakdowns, resulting in increased downtime and an adverse effect on service delivery, plus substantial hire charges being incurred.

Due to a lack of historical investment in the fleet replacement programme, there are now 394 vehicles that are over their replacement age profile. This equates to 52% of the Council's operational vehicles and plant which have now exceeded their original Useful Economic Life (UEL). These are detailed in the tables at **Appendix 2**.

Depreciation, fuel and maintenance are commonly the largest expenses incurred in running fleet vehicles. Depreciation is the single largest measureable expense and can be easily tracked over the lifecycle of a vehicle.

The current residual value of the Council's fleet is approximately £6.5m and is made up of Light Vehicles, Large Goods Vehicles and Plant.

Vehicle maintenance costs start out low in the earlier years and increase over time as the vehicle ages.

New principles for replacement

In order to respond to reductions in funding, it is critical to evaluate replacements carefully and maintain a robust renewal programme. There is a need to move to replacing vehicles based on evidence and needs, rather than the existing vehicle replacement policy. Because of the factors that will be taken into account when reviewing the replacement plan, a flexible approach will be required when agreeing which vehicles will be replaced.

Officers are recommending an amendment to the current policy to allow a "whole life costing" approach to be used in conjunction with the current 5 and 7 years policy, allowing Transport to use evidence based data with consideration of vehicle use, maintenance and service user's needs to develop a bespoke, financially and operationally beneficial process for replacing vehicles. This will enable the council to procure a fleet that is efficient, effective, fit for purpose and provides VFM for the people of Kirklees.

This "whole life costing" element of the policy will be used to guide vehicle replacement decisions using data covering a range of factors including:

- Mechanical condition of vehicles;
- Anticipated lifespan of vehicles;
- Utilisation of vehicles based on Tracker Data;
- Vehicle operating costs including fuel economy;
- Maintenance costs and projected maintenance costs;
- Availability of spare parts;

- Re-sale value;
- Emission requirements under existing and future legislation;
- Non-financial factors including public image, employee morale, retention & safety.

3. Implications for the Council

Due to reductions in the Capital Investment Vehicle Replacement Programme, the Council is now running an ageing fleet.

If this trend continues, it will result in an unevenly balanced fleet across the years that will impact on both operational and VFM performance measures.

The limitations of the current policy mean that there will be peak times in terms of disposals and replacements if all vehicles reach the end of their operational use within the same year.

Timely fleet replacement is an essential part of risk management for the Council. By having a flexible approach to vehicle replacement, we will be able to distribute more evenly the number of vehicles being replaced. This would safeguard against risk, and reduce the level of financial and corporate risk as detailed in the Council's current risk register.

3.1 Legal Implications:

The Driver and Vehicle Standards Agency recognises that operators of heavy goods or passenger carrying vehicles will not get everything right all the time.

Possessing an ageing fleet means that it can be very difficult at times to comply with the required standards and regulations; this will potentially increase the level of corporate risk.

Failure to meet with all the necessary requirements of legislation governing fleet operations could lead to the suspension of the Council's Operators Licence (O Licence), resulting in the Council being unable to deliver services.

3.2 Financial Implications:

Older vehicles (aged 6 – 10 years) can cost up to three times as much to maintain than newer vehicles (aged 1 – 5 years). They are also more at risk of breakdowns, resulting in increased downtime and an adverse effect on service delivery. The increased downtime could be as high as 20%; this is confirmed in external and audit reports.

A reduction in maintenance costs, vehicle hire costs and a reduction in downtime will be achieved with the introduction of new vehicles, giving a more reliable fleet and providing improved levels of service to users.

The flexible replacement approach fits with CSR as we will be procuring vehicles that will fit with the Council of the future, working with services to look at alternative operating models so that vehicles can be shared between services across the Council.

By adopting this new policy and by using the principles, it will help the Council to balance the cost of Capital repayments against the risk of increasing maintenance costs, breakdowns, vehicle downtime and hire costs.

Vehicle age and condition affects residual value. We will maximise the re-sale value using a variety of auctioneers based on the latest available market intelligence.

By taking a comprehensive approach to implementing a cost effective fleet replacement programme, savings against the capital plan can be made. It will also allow flexibility in the programme so that Transport can quickly react to the needs of service users. It is envisaged that the savings in the region of £125k per annum will be made through economies of scale purchasing and utilising robust procurement frameworks such as Government Procurement Service eAuction.

Transport is working with services to review and reduce our fleet as part of our overall review of service delivery. Transport will also ensure that all new vehicles are:

- Cost effective for the council;
- Fit for purpose;
- Fully utilised;
- Multi-functional;
- Single specification.

Due to the complex nature of some of the Council's vehicles, in particular Refuse, Highways and Parks and Open Spaces, vehicle lead times are in the region of 24 weeks. As the fleet gets older, there is an increased risk of vehicles not being available for service, and this will result in excessive hire costs. The table below details the cost of hiring replacement vehicles.

Type of Vehicle	Weekly Cost	Monthly Cost
Refuse	£550	£2,383
Highways (Gritter)	£775	£3358
Highways Tipper	£248	£1074
Parks and Open Spaces	£260	£1126

It is therefore crucial to cost reduction and service delivery to replace vehicles that are beyond their UEL.

It should be noted that this capital investment will incur the cost of revenue repayments for the prudential borrowing of £45,729 per annum on average.

3.3 Human Resources Implications:

None.

3.4 IT Implications:

None.

3.5 Strategy and Partnership Implications:

Transport Services will continue to work with Service Managers to understand their current and future needs, by using more controlled methods of fleet replacement and adopting a strategic approach to vehicle replacement for critical service delivery.

The role of Transport Services is to provide a mixture of support and challenge. The market and operational use will be continually reviewed to understand the options available to us, and as a result we will be able to identify vehicles and services which offer far better value for money.

Examples of these vehicles and services available are listed below:

- Electric;
- Hybrid (part electric, part conventional);
- Carbon Neutral Gas (CNG);
- Car share schemes;
- Alpha City (Pay as you go car hire scheme);
- Dual purpose vehicles.

4. Consultees and their opinions

David Smith, Director of Resources, and the Capital Delivery Board have been consulted and are in agreement with the contents of this report.

5. Next steps

Transport Services will continue to manage the Vehicle Replacement Programme and deliver the vehicles necessary to meet service need.

6. Officer recommendations and reasons

It is recommended that:-

Cabinet approve the continued investment of £2.577m per year in the vehicle replacement programme, as identified in the approved capital plan.

Cabinet approve the revised vehicle replacement policy.

In order to aid the implementation of the Vehicle Replacement Programme, Members are requested to delegate authority, in accordance with the Council's relevant Financial Procedure Rules dated June 2014, to the Assistant Director – Streetscene and Housing to manage the implementation of the Vehicle Replacement Programme.

Delegated powers would include the authority to add, slip or delete replacement vehicles during the course of the 2 year programme to enable the effective management of the Replacement Vehicle Programme.

Delegated powers would include the authority to ensure that unforeseen issues can be dealt with by exception to respond to timely and urgent fleet replacements. **See Appendix 1.**

7. Cabinet portfolio holder recommendation

The portfolio holder, Cllr Cathy Scott, agrees with the officer proposals and recommendations and would ask Cabinet to do the same.

8. Contact officer and relevant papers

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9. Assistant director responsible

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