

**SPECIAL MEETING OF
SHAREHOLDER SUB COMMITTEE
Thursday 11 May 2023 at 7.30 pm
Council Chamber, Civic Centre**

AGENDA

1. Apologies for absence

2. Declarations of Interest

Councillors' declarations of interest (if any) in relation to any items on the agenda.

3. Reference from HTS (Property and Environment) Ltd - Replacement of HTS (Property and Environment) Ltd Fleet (Pages 2 - 11)

4. Matters of Urgent Business

Such other business which, in the opinion of the Chair, should be received as a matter of urgency by reason of special circumstances to be specified in the minutes.

REPORT TO: SHAREHOLDER SUB COMMITTEE

DATE: 11 MAY 2023

TITLE: REFERENCE FROM HTS (PROPERTY AND ENVIRONMENT) LTD – REPLACEMENT OF HTS (PROPERTY AND ENVIRONMENT) LTD FLEET

LEAD OFFICER: JOHN PHILLIPS, MANAGING DIRECTOR HTS (PROPERTY AND ENVIRONMENT) LTD (01279) 446673

RECOMMENDED that:

- A** The proposal to replace 74 vehicles by HTS (Property and Environment) Ltd is approved.
- B** The proposal to seek to replace a further 34 vehicles and 14 mowers that will fall due for replacement from April 2024 is also approved.
- C** That the Council as sole shareholder agrees to support the acquisition of the replacement fleet through the provision of loan financing of up to £2.8million subject to the outcomes of the vehicle procurement process.
- D** That the details relating to loan finance and loan agreements are delegated to the Deputy Chief Executive/Director of Finance to finalise alongside the procurement exercise.

BACKGROUND

1. At its meeting on 5 December 2022, the HTS Group Board approved a recommendation from its HTS (P&E) Board to proceed with the purchase of new vehicles in line with its agreed Business Plan. The purchase is required to replace 5 vehicles which are now uneconomical to maintain and repair and 69 where the already extended lease arrangements will expire in April 2024. The report setting out the business case for the procurement is attached at Appendix A to this report.
2. Due to the requirement for further analysis and additional scrutiny of the options appraisal to be carried out to achieve satisfactory reassurance, the initial decision required from the SSC to finance the replacement vehicles was delayed. As a result HTS have secured a lease extension for 12 months but will commence a new procurement process to secure suitable replacement vehicles from April 2024.

ISSUES/PROPOSALS

3. The Scheme of Delegation requires the Share Holder Sub Committee to approve any borrowing by HTS over the value of £100,000.
4. Whilst being higher cost than traditional diesel vehicle options, this cycle of fleet replacement will include 10 electric vehicles. This will continue to move HTS towards a green fleet commitment and will further help in the evaluation of the use of such vehicles against current HTS operating model and is linked to company's wider electrification plans having regard to the Shareholders 'Climate Emergency' commitment.
5. The fleet of 69 vehicles, currently leased under an agreement with Alphabet Leasing at a monthly cost of £18,535 has been extended to April 2024. Prior to this extension 22 Leases were due to expire in April 2023, 45 in May 2023 and 2 in June 2023.
6. In addition to the vehicles above a further 34 vehicles and 14 mowers are also now due for replacement and these will also be included in the procurement process.
7. HTS will identify a suitable procurement framework to undertake the tendering process.
8. In seeking to raise the funding through the Council it is anticipated that the total costs of the procurement will be in the region of £2.4 -£2.8million subject to the vehicle costs at the time of the tender process. The financing will be structured such that 25% of the final cost will be met from funds set aside by HTS for that purpose and that the remaining 75% will be required to be met through loan financing from the Council. The interest rate applied will be determined both by the prevailing interest rates available to the Council at the time of the advance and giving due consideration to the requirements of State Aid regulations. The loan term will be for 5 years.

IMPLICATIONS

Strategic Growth and Regeneration

None Specific.

Author: Andrew Bramidge, Chief Executive

Finance

HTS (P&E) Ltd have factored the financing costs of the fleet replacement programme into the company business plan and associated financial plans accordingly.

Author: Simon Freeman, Deputy Chief Executive and Director of Finance

Housing

As outlined in the report.

Author: Andrew Murray, Director of Housing

Communities and Environment

The maintenance of an effective fleet is an essential pre-requisite for the delivery of a high quality environmental service to local residents.

Author: Jane Greer, Director of Communities and Environment

Governance and Corporate Services

The decision accords with the revised terms of reference approved by Cabinet in December 2018.

Author: Simon Hill, Director of Governance and Corporate Services

Appendices

Appendix A – HTS (P&E) Ltd Special Board report – Fleet Renewal

Appendix B – Minutes of the HTS Group Board 5 December 2022

Background Papers

None.

Glossary of terms/abbreviations used

HTS – HTS (Property and Environment) Ltd

Report of:			
Neil Rowland			
Name of Meeting:	Date of Meeting:	Agenda item:	Status:
HTS (Property & Environment) Special Board Meeting	5 December 2022	Fleet Renewal Report	Information

Proudly serving Harlow

RECOMMENDED that:

- A** The HTS Group Board agrees to the proposal to purchase new vehicles to replace 74 of the existing aged fleet at an estimated cost of £2,076,087.30 (not including interest)

SUMMARY

- B** At the onset of the HTS contract, 69No vans were leased through Alphabet to replace the existing aged fleet of vans. An additional 5No. vans have been added to this due to their age and condition.

The existing lease arrangements are due to expire in 2023 when the vans will be returned to Alphabet and HTS must replace these vans to enable it to continue delivering its services for Harlow Council.

As part of the decision-making process we must consider current and future changes in legislation that may affect our procurement strategy for fleet. Currently, both HTS and Harlow Council have made a commitment to be net zero by 2040.

It is therefore necessary to explore the purchase of electric vans during this procurement exercise.

There is a particular focus on diesel emissions and the introduction of low- emission zones across the country. A low-emission zone (LEZ) is a defined area where access by some polluting vehicles is restricted or deterred with the aim of improving the air quality and cut vehicles emissions.

For example, TFL is expanded its LEZ in 2020 to be London wide for lorries and it is also introducing an ultra-low-emission zone (ULEZ) in April 2019 for central London expanding to the boundary of the North and South Circular in October 2021. This will be further expanded in 2023 to cover most of Greater London. Vehicles that do not meet the correct criteria will be charged £12.50 per day.

Similarly, Oxford City Council are proposing the first Zero Emission Zone in Oxford City Centre, that currently has illegally high levels of nitrogen dioxide. The pilot will start with a few vehicles and limited streets on 28 February 2022 moving to all vehicle types and the whole city centre by 2035. Petrol, diesel and hybrid vehicles will have to pay a fee to enter it.

The new vehicles that HTS would be purchasing will meet the current legislation criteria of Euro 6. This was first introduced in September 2015 and was the sixth European Union directive to reduce harmful pollutants from vehicle exhausts.

Also, should HTS secure long-term third-party work in another location, our fleet must be compliant with current legislation.

Taking the above into consideration HTS recommend the purchase of the 74 new vehicles.

REASON FOR DECISION

- A** HTS (Property & Environment) Ltd (HTS) will require the new vehicles to enable it to continue to deliver its services for the remainder of the contract.
- B** The current lease arrangements with Alphabet come to an end in 2023 so the vehicles will need to be replaced.

BACKGROUND

Since the beginning of the contract in 2017 we have been investing in our fleet to ensure we can deliver our services without interruption.

There was a lack of investment in front line vehicles in the Kier era, so we have carried out a number of procurement exercises to ensure HTS has been capable of delivering its key objectives.

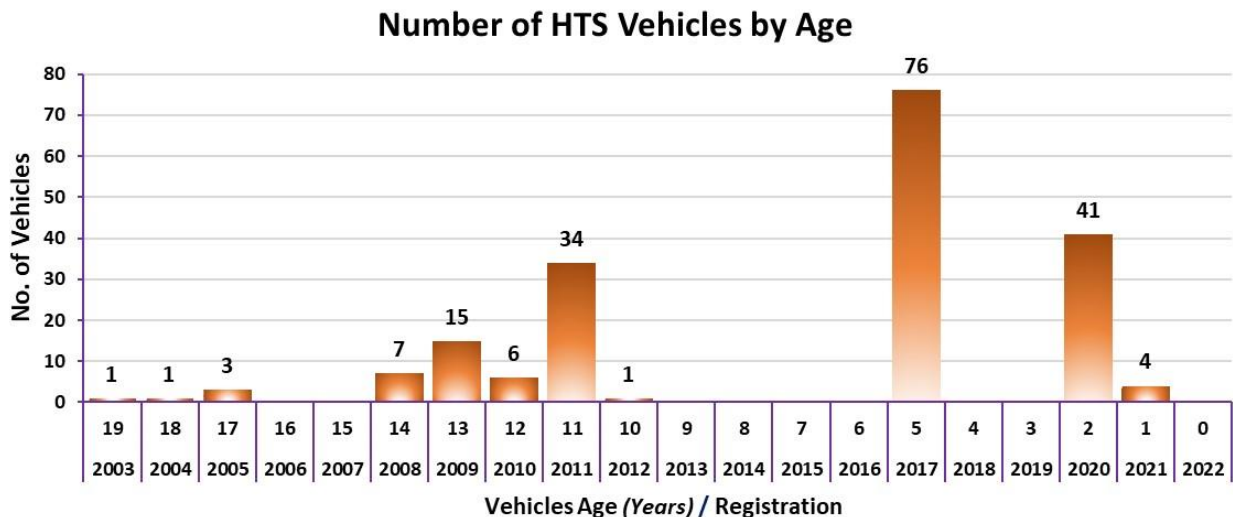
In year 1 of the contract, in order to address the issue, HTS purchased 61 second hand vans from Arval at a cost of £291,550.00 and leased 69 vans from Alphabet at a cost of £249,765.00 PA.

A further 35 new vans were ordered in 2020 for a further £686,866.00.

Since the start of the contract HTS has invested £2,555,000 on vehicles.

HTS policy is to purchase rather than lease or rent vehicles to benefit from using the vehicles longer than 5 years.

The graph below illustrates the age of profile of our current commercial fleet.



THE PROPOSAL

1. There are a number of procurement options open to HTS. These include:
 - 1) Purchase the vans to meet our required specification
 - 2) Lease/Contract Hire the vans to meet our required specification
 - 3) Purchase second hand vehicles. These will then need to be branded, have racking installed, have reversing sensors installed, invertors, toolboxes fitted, tow hooks etc. Second hand vehicles are in short supply which has resulted in a sharp increase in prices.

Options 1) and 2) are viable options for this procurement exercise. A summary is set out below:

Purchase Price - £2,076,087.30
Lease Price (5 years) - £2,166,985.40

Option 3) has been discounted due to the fact HTS needs a variety and volume of vans, some specialist in nature, that are currently in short supply and nearly as expensive as new vans.

6. The preferred options have been through a procurement exercise through The Procurement Partnership Limited, is to purchase new the vehicles required to deliver the services. The vehicles will then be owned by HTS as an asset of the business.

There were x4 separate Tenders / Lots in total submitted via the "Hertfordshire County Council Purchase Framework – Lot 2". Framework Ref – HCC1811097.

Individual references / names were as follows:

13368 – Electric vehicles
13367 – LCV's
13366 - Tippers
13365 - Pickups

7. The assets can be used immediately whilst allowing repayments to be made over the period of the loan agreement.
8. There will also be long-term savings once the agreement ends to utilise the vehicles at no additional cost. The majority of these savings are realised in years 6-10 after the vehicles have been paid for. Our experience has shown that our vehicles remain economically serviceable for up to 15 years. Assuming only a 10-year lifespan would generate a saving in the region of £2,257,883.50 comparing purchase against leasing.
9. It is envisaged the vehicles will be delivered in a number of phases as they are completed from the production line.
10. A number of options were considered in respect of electric vehicles. This involved modelling the cost of 10, 22 and 33 electric vehicles out of the 74 vehicles.

The table below illustrates the difference in price to purchase electric vehicles, with a total of 33No. electric van costing an addition £408,222.52.

Apart from the financial impact of purchasing electric vehicles, HTS looked at the infrastructure at Mead Park and charging availability around Harlow. The current infrastructure and its output at Mead Park are under review and with the lack of viable charging points around the Town, and the lack of ability to park at home due to lack of parking spaces, HTS is recommending the procurement of 10No. electric vehicles.

Vehicle Summary - Electric v Diesel			
No. Electric Vehicles out of 74No.	Electric	Diesel	£ Additional
33 Electric vehicles	£1,111,452.86	£703,230.34	£408,222.52
22 Electric vehicles	£807,419.45	£450,400.92	£357,018.53
10 Electric vehicles	£241,429.50	£173,427.00	£68,002.50

11. The vehicles can be maintained over their lifespan by HTS staff without effecting the warranty of the vehicles, who are already familiar with Ford products. There will be a warranty which is generally 3 years/100,000 miles depending on vehicle type.

The transport department in HTS employs highly skilled mechanics who currently service and maintain a variety of vehicle makes.

FINANCE

12. There are several options open to HTS to finance the purchase of the new vehicles:
- a) A loan from HDC. HDC benefit from cheap borrowing through the Public Loans Work Board (PLWB). HTS would be charged at commercial rates allowing HDC to essentially make a profit and HTS to provide an efficiency.
 - b) A loan from a Bank. HTS now has audited accounts and a good track record with Barclays Bank that would enable it to secure a loan.
 - c) Purchase using a mixture of reserves and loans.
13. We would propose that the loan would have to be paid back over 5 years, essentially writing off the value of the asset over this time period. It would then be 100% owned by HTS who have the in-house skills to keep the vehicle road worthy and well maintained at least for another 5 years.
14. Our preferred method of borrowing would be through a loan facility provided by Harlow Council. There are ongoing discussions with the Council around the funding of these vehicles.

Currently due to delays experienced so far it is unlikely the new vehicles will be delivered before the existing contracts expire.

HTS is looking at a number of options to mitigate this issue:

- 1) Extending the existing agreement with Alphabet
- 2) Carry out another tender exercise due to time expired
- 3) Short term lease or hire for similar vehicles

**HTS Group Limited
Minutes of Special Board Meeting**

**Held on 5th December 2022 at 17:30
Board Room Mead Park Depot**

1. Attendance and Apologies

Present

Michael Harrowven	Non-Executive Chair
John Phillips	Managing Director
Councillor Bob Davis	Director
Alex Morris	Finance Director & Company Secretary
Neil Rowland	Commercial Director
Councillor Jodi Dunne	Director (Observer)
Tina Roach	Assistant Company Secretary & Governance Manager (Minute taker)

Apologies

Councillor Eddie Johnson	Director
Councillor Stacy Seales	Director
Andrew Murray	HDC Director of Housing

Actions

2. HTS (Property & Environment) Limited Fleet Renewal Proposal and Sign Off

MH welcomed all to the meeting which has been called to ask Directors to approve the recommendation to purchase x74 vehicles.

JP advised this proposal was brought to both the HTS (Property & Environment) Limited Board meeting (held 5th December 2022) and the Audit & Finance Subcommittee meeting (held 2nd December 2022) whereby support was granted.

Reports were circulated prior to the meeting for consideration.

NR presented his report to the meeting in detail. As a summary:

- Proposal to purchase new vehicles to replace 74 of the existing aged fleet at an estimated cost of £2,076,087.30 (not including interest)
- The current lease arrangements with Alphabet come to an end in 2023, we are actively seeking a lease extension
- We have explored the purchase of electric vehicles during this procurement exercise
- Procurement options have been explored and our preference is to purchase the vans to meet our required specification
- We have been through a procurement exercise (via The Procurement Partnership Limited)

- HTS is recommending the procurement of 10No. electric vehicles
- Funding: there are several options open to HTS to finance the purchase. AM is in liaisons with Councillor James Leppard and Simon Freeman and we are also in discussion with third-party providers

NR informed that via the open tender process we welcomed manufactures to submit bids for alternative fuels and hybrid vehicles. Unfortunately, we did not receive any returns for this.

Discussions took place regarding the number of proposed electric vehicles and whilst higher costs were observed, the main reason we are unable to purchase a higher volume is due to the existing charging infrastructure.

BD enquired about the lifespan of batteries on the electric vehicles. TR advised the tender submissions have been returned with an 8-year warranty on the electric batteries.

Further to the above discussions JP proposed the HTS (Property & Environment) Board agree to this proposal to purchase x74 vehicles:

- BD conveyed his support for this proposal
- This was seconded by MH
- Unanimously agreed by all attendees

JP advised as the Group have approved this proposal it will now be forwarded to our Shareholder for consideration of funding.

JP

3. Any Other Business

JP advised Tim Page, our former HR, Payroll and Communications Manager, has decided to bring forward his planned retirement from March 2023 and will now retire at the end of December 2022. Board members noted his extensive contribution to the company. MH to send out a letter to T.Page on behalf of the Board expressing gratitude for his hard work and commitment.

MH

JP proposed that he would like to express a token of recognition and gratitude to employees this Christmas. A voucher in the sum of £25 could make a real difference to some of our employees and would be extremely welcomed. All employees would receive this, with the exception of Senior Managers and Directors that form the Senior Management Team. The vouchers equate to an approximate commitment of £9k and JP asked for the Boards ratification. All attendees agreed this proposal. JP will make arrangements. This proposal was unanimously agreed.

JP

JP advised Sub committee meetings are currently being reviewed and TR will be sending out proposals, inclusive of Chairs, members and terms of reference.

TR

Board meeting is closed.