

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.

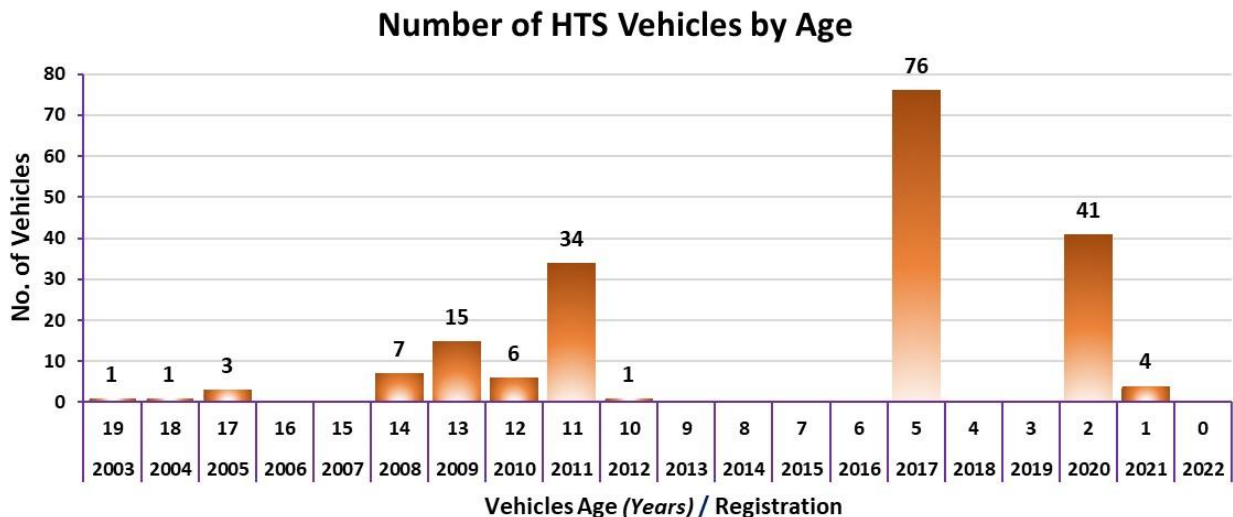
In year 1 of the contract, in order to address the issue, HTS purchased 61 second hand vans from Arval at a cost of £291,550.00 and leased 69 vans from Alphabet at a cost of £249,765.00 PA.

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