

EAST HERTS COUNCIL

EXECUTIVE - 4 APRIL 2017

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

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WASTE VEHICLE INVESTMENT

WARD(S) AFFECTED: ALL

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**Purpose/Summary of Report**

- **To secure capital funding in principle for waste collection and street cleansing vehicles which will be required for the new joint waste and cleansing contract due to start May 2018.**

**RECOMMENDATIONS FOR COUNCIL: That:**

<b>(A)</b>	<b>capital funding in the range of £3.5 million to £4 million for the purchase of vehicles required to deliver the District's waste and street cleansing service from May 2018, be approved, subject to tender evaluation indicating that option provides a substantial saving to the Council.</b>
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1.0 Background

1.1 The joint waste and street cleansing contract with North Herts District Council is due to be awarded in September 2017. It is expected that contract mobilisation will start no later than late Autumn 2017 with the new contract starting in May 2018.

1.2 The purpose of the joint contract is to support each Council with its savings and efficiency targets. The core specification requires the provider (contractor) to provide a cost to supply the service including the purchase of waste collection and street cleansing vehicles. This means the Council paying for vehicles through monthly contract payments and therefore through the Council's revenue budget over the life of the contract (7years). The contract

offers an option for the Council to pay for the purchase of vehicles as a one off cost through the capital budget.

## 2.0 Report

2.1 This report seeks agreement in principle for the Council to pay for the purchase of vehicles through the capital budget programme, should this provide a substantial saving to the Council.

2.2 It is difficult to obtain an actual cost of vehicles required for the new contract as there are a number of service options that may impact the types of vehicles required i.e. a fully co-mingled service or partially co-mingled service, actual figures will be obtained at the tender evaluation stage. The funding request of £3.5million to £4million is an estimate based on current market costs and the number of vehicles used for the current waste service contract for East Herts Council.

2.3 If we were to provide the capital to purchase the vehicles, then we have to recognise the cost of using that capital rather than investing it elsewhere. Our current cost of capital is based on the average rate of return from investments, which we assume to be 2.3% for East Herts. The current annual cost of capital per £500k is £11,500. If these figures are applied to the funding request in this report, the capital costs to the council are shown in the table below:

Capital Required	Annual Cost of Capital	Cost of Capital over Life of Contract (7 years)
£3.5m	£80,500	£563,500
£4m	£92,000	£644,000

2.4 Interest rates are extremely hard to predict at the moment and the Council's advisors are not estimating past 31/12/18 but for every 0.25% interest rate rise, the annual cost of capital will increase by £1,250 for every £500k spend.

2.5 Bidders are required to provide a sum to reflect the annual reduction in the contract price in the tender submission should the Council purchase the vehicles. This figure will be split by 50% and multiplied by 7 (years of the contract) to provide the cost to East

Herts Council. Should this figure be more than the combined total for the capital purchase plus the estimated loss of interest from capital over the life of the contract, the officer recommendation to the Executive will be to award the contract with the option of capital investment. The award of the contract is due to take place in September 2017.

- 2.6 Where the means of procurement (of Vehicles) by the Council generates savings in the prices set out in the Tender, the Council may vary the Agreement in accordance with the Conditions of Contract. The Council will then procure the vehicles in accordance with the specification set out by the provider.
- 2.7 By entering into the User Agreement, the provider undertakes to meet the cost of maintaining the vehicles to a safe and suitable operating standard for the performance of the contract and maintaining insurances to ensure the continuation of service in the event of vehicle write-off (or similar). The provider will also return the vehicles to the Council at the end of the contract in a condition that is in accordance with its age and usage.
- 2.8 Should the Council decide to purchase the vehicles the funding will be required for financial year 2017/18 which is why an in principle agreement to fund is necessary.
- 2.9 Should the Council purchase these vehicles, the Council will be able to reclaim the VAT as this is a purchase of a commercial vehicle. If the provider purchases the vehicles and charges the Council through the contract, this would be a revenue charge and the Council would be charged VAT on the invoices which the Council would also be able to reclaim.
- 3.0 Implications/Consultations
- 3.1 Information on any corporate issues and consultation associated with this report can be found within Essential Reference Paper 'A'.

#### Background Papers

None

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