

## ITEM NO: 7

<b>Report To:</b>	<b>STRATEGIC CAPITAL PANEL</b>
<b>Date:</b>	25 August 2011
<b>Reporting Officer:</b>	Robin Monk – Assistant Executive Director, Economic and Technical Services
<b>Subject:</b>	<b>REPLACEMENT OF GROUNDS CARE EQUIPMENT / GRAVE DIGGING EQUIPMENT</b>
<b>Report Summary:</b>	<p>The current contract hire arrangement with SGM UK for the supply of Grounds care equipment was for a 3 and 5 year supply provision is currently under an extension period under a waiver of standing orders and is due to end March 2012. This report seeks approval and recommendation to Cabinet on 31 August 2011 for the purchase/contract hire of this equipment through the most economically advantageous method for the council.</p>
<b>Recommendations:</b>	<ol style="list-style-type: none"><li>1. Recommendation is sought from Strategic Capital Panel for Prudential Borrowing funding of £867,612.25 over 3 and 5 years as indicated in the report. Note: Approval is also sought to allow a variance of 5% upon this figure. This is considered necessary to account for any changes in interest borrowing rates and purchase costs, which may occur following the timing and outcomes of the procurement process yet to be undertaken.</li><li>2. That recommendation to Cabinet on 31 August 2011 to proceed with the outright purchase (using Prudential Borrowing) to procure the equipment listed in Tables 1 and 2. of the report.</li><li>3. That any residual values received from the sales of equipment at the end of the rental periods be used to contribute to future replacement fleet procurement exercises within the rolling replacement programme.</li></ol>
<b>Links to the Community Strategy:</b>	<p>The replacement of this equipment will help District Assemblies and Cemeteries deliver front line services and improve the council image through improved maintenance of its parks, gardens and highway verges etc. The equipment will meet the stringent of HAVs (Hand Arm Vibration) Health and Safety requirements and contribute to a cleaner environment through improved engine management technology and equipment emissions, which also meet the objectives of the Carbon Reduction Panel.</p>
<b>Financial Implications: (Authorised by the Principal Finance Officer)</b>	<p>The revenue costs associated with repaying the rental charges are to be found from existing budgets across the Service Area(s) affected. Procurement will be undertaken in line with Council Standing Orders (Using YPO framework 2011).</p>
<b>Legal Implications:</b>	<p>It is important that the Council undertakes the procurement exercise expediently allowing enough time to consider other</p>


options if necessary. Additionally the reporting officer should seek the advice of the procurement professional from the Tameside Investment Partnership who is currently assisting the Council in reviewing its procurement capacity.

**Risk Management:**

Should there be any significant delays in procurement; the equipment may not be in place to ensure the first grass cutting of the season. This may result in a further waiver being requested to allow continued use of existing (life expired equipment) and subsequent increased downtime due to breakdowns etc, or, the need to use short term hire equipment at additional costs.

**Access to Information:**

The background papers relating to this report can be inspected by contacting the report writer, Paul Jennings, Head of Technical Services by:

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## 1. INTRODUCTION

- 1.1 The Council's current grounds care equipment, operated by the District Assemblies and Environmental Health Bereavement Services, is sourced through a Framework Contract with SGM UK (currently under a waiver of standing orders) for 'Contract Hire with Maintenance' (maintenance is provided by the in-house Transport Services section of Technical Services - Transport). This arrangement has proven beneficial for the Council in respect of rationalising equipment needed and providing flexibility in the types and numbers required within the various operational depots across the Borough.
- 1.2 The grounds care equipment is currently supplied by SGM UK under a three year contract ending March 2010 and is currently operating on a 1 year extension under a waiver of standing orders. It is, therefore, now due for replacement for the following reasons:-
- expiry of the Waiver of Standing Orders to permit the extension the contract; and
  - the equipment is now outside of optimum operational life and is no longer reliable and able to sustain another year of use.
- 1.3 The current fleet has reduced by 13% since 2010/11, as a result of service reviews, from 145 items of equipment to 126.
- 1.4 The equipment types required by the District Assemblies and Bereavement Services for the period 2012-2017 along with the new rental figures are as listed in the tables below:

**Table 1 – DISTRICT ASSEMBLIES**

No's 2010 / 2011	No's 2011 / 2012	No's 2012 / 2013	District Assembly Equipment Types	2010/11 Annual Rental	2011/12 Annual Rental	2012/13 Annual Rental Contract Hire	2012/13 Annual Borrowing Repayments
86	85	81	Various pedestrian mowers	£100,331.93	£68,943.41	£86,735.19	£83,741.53
11	11	12	Mower cassettes	£2,069.00	518.67	£4,703.61	£3,198.81
4	0	0	Pedestrian leaf blower	£2,629.00	£0.00	£0.00	£0.00
1	1	1	Pedestrian leaf vacuum	£747.89	£538.48	£1,057.42	£1,711.68
4	4	4	Pedestrian strimmers	£2,140.32	£1,541.03	£1,737.74	£1,711.68
3	2	2	4 x4 Utility vehicles	£18,271.30	£7,891.54	£16,526.33	£11,878.44
19	12	11	Ride on mowers	£148,671.37	£91,226.41	£81,472.30	£82,243.21
6	5	5	Tractors	£52,468.42	£62,030.04	£85,040.77	£67,753.87
4	3	3	Gang mowers	£36,577.15	£24,115.42	£37,910.42	£25,679.37
6	6	6	900ltr water bowsers	£3,544.37	£3,137.10	£4,196.56	£3,003.33
1	1	1	Wood chipper	£19,543.11	£17,823.31	£14,268.80	£10,107.92
145	130	126	Sub-Total	£386,993.86	£277,765.41	£333,649.14	£291,029.84

**Table 2 – CEMETERIES**

No's 2010 / 2011	No's 2011 / 2012	No's 2012 / 2013	Cemeteries Equipment Types	2010/11 Annual Rental	2011/12 Annual Rental	2012/13 Annual Rental Contract Hire	2012/13 Annual Borrowing Repayment
1	2	2	JCB excavator	£8,029.56	£12,204.38	£16,960.76	£13,990.43
1	1	1	JCB trailer	£847.72	£606.50	£1,195.01	£1,044.68
5	5	5	Neuson dumpers	£29,811.60	£29,811.60	£43,475.25	£26,541.56
7	8	8	Sub-Total	£38,688.88	£42,622.48	£61,631.02	£41,576.67
<b>152</b>	<b>138</b>	<b>134</b>	<b>Grand Total</b>	<b>£425,682.74</b>	<b>£320,387.89</b>	<b>£395,280.16</b>	<b>£332,606.51</b>

**Note:** The above tables include a comparison with 2010/11 equipment types, numbers and costs. This is because the 2011/12 extension figures are not a true reflection of hire rates, due to being significantly reduced owing to the age of equipment being supplied. **All figures are fully inclusive of all on costs and insurances.**

1.5 The above table indicates that purchasing the equipment offers a benefit against contract hire of **£62,673.65**.  
Annual Costs (Contract Hire 2012/13 - £395,280.16) - Annual Costs (Purchase 2012/13 - £332,606.51).

1.6 It should be noted that current hire costs of £320,387 represents a reduced hire rental during an extended one year hire of equipment. This is not an option going forward, as this equipment is now one year beyond its economic life. Equivalent replacement equipment for 2012/13 using purchase as the preferred option, is £332,606 (£12,218 greater than 2011/12 costs). District Assembly and Crematorium Service budgets will therefore need to reflect these increases within their budget plans for 2012/13.

## 2. PROCUREMENT OPTIONS

2.1 An exercise has been carried out to obtain indicative rates through use of the alternative procurement options. These are:

- i. Outright Purchase (Prudential Borrowing); and
- ii. Contract Hire with maintenance.

Details of the comparisons are shown in Table 3 below.

2.2 It should be noted that for this particular range of equipment no indicative rates for Operating Leases have been obtained. However, similar recent exercises have been undertaken for the authority's sweepers, vans and tippers, and all have indicated that Operating Leases, although more preferential than Contract Hire arrangements (but more restrictive regarding return conditions etc), are less favourable than Outright Purchase option.

2.3 All rates obtained are indicative and are provided outside of the tender process. It is expected more advantageous purchase rates will be obtained by competitive tendering.

- 2.4 The equipment specified in Tables 1 and 2 have been split into two Finance/Contract Hire periods of 3 years and 5 years, reflecting the operational life of the equipment required, but do not include on-costs and insurance charges to Service Departments.

A total of 69 pieces of equipment will be financed/Contract Hired for 3 years.

A total of 65 pieces of equipment will be financed/Contract Hired for 5 years

Table 3 identifies the costs to the Council for both options

**Table 3 – Cost Options**

Period	Purchase Cost (including interest costs)	Contract Hire	Total Savings (Purchase / Contract Hire)
3 Year	£194,951.95	£226,463.54	
5 Year	£672,660.30	£941,216.99	
Sub Total	£867,612.25	£1,167,680.53	£300,068.28
Residual Value (3 Year)	-£26,828.25		
Residual Value (5 Year)	-£87,738.30		
<b>Total</b>	<b>£753,045.70</b>	<b>£1,167,680.53</b>	<b>£414,634.83</b>

- 2.5 The table indicates that there is an initial cost of £867,612.25, should the Council purchase the required equipment compared with a Contract Hire cost of £1,167,680.53
- 2.6 However, when residual values are taken into account there is an additional benefit of (£114,566.55) giving an overall benefit to the Council of £414,634.83 over the 5 year period, by procuring the equipment via Outright Purchase as opposed to Contract Hire.
- 2.7 Additionally, should Outright Purchase be used, the Council would also be in a position at the end of the purchase period to either choose to realise the residual values of the equipment, or extend the life of this equipment over a longer period (subject to condition). This would provide better value internal hire rates and a flexible approach to disposal, taking into account potential service reviews and job redesign exercises within the service areas.

### **3. ANALYSIS OF AFFORDABILITY**

- 3.1 In order to determine whether existing revenue budgets can be used to fund the procurement of the replacement equipment, an exercise was undertaken to identify numbers and types required by each service area and, therefore associated costs, including maintenance, Road Tax, insurance etc. This information is included in Tables 1 and 2 above.
- 3.2 The revenue implications contained above in Tables 1 and 2 have been checked by the relevant officers from the service areas and are in line with the budgets and affordability of each respective service area. (This has been received in writing and authorised by the appropriate management Service Unit Managers / Senior Officers).