AGENDA ITEM

Meeting: CRMG 11 June 2024
Meeting: Cabinet 25 June 2024

FLEET MANAGEMENT LOAN FACILITY

Report of the Assistant Director for CSS/Deputy S151 Officer

1. INTRODUCTION AND PURPOSE OF REPORT

1.1 The purpose of this report is to recommend a new loan facility for fleet at Totally Local Company Ltd (TLC).

1.2 This new loan, along with consideration of leasing will enable the Environmental Services Strategy which is currently being devised.

1.3 The Environmental Services Strategy will be available in the Summer. It will seek to work towards decarbonising the fleet. In the interim for every vehicle purchase a green alternative is being considered where available.

1.4 The vehicles utilised by TLC tend to last circa 6-8 years. TLC have c140 purchased vehicles and currently 65% of the fleet is fully depreciated and coming to the end of their useful life. For each purchase an appraisal will take place to look at the most cost effective vehicle that also meets the operational requirements of the specific service. Section 2 demonstrates that purchasing is currently assessed to be the most cost effective financing, however alternatives such as leasing will also be considered where the situation merits e.g. to run a trial period with a new type of vehicle that fits into the decarbonisation model.

1.5 As the Environmental Services Strategy is finalised it may result in the need for investment in new infrastructure. Further and continuous appraisal of the optimum fleet acquisition options will take place to look to ensure the best value for money option is followed.

2. BACKGROUND

2.1 On 13 November 2018 Cabinet approved a loan facility with TLC to enable the fleet strategy. The facility was a £9.6m facility which ran from 13 November 2018 to 31 March 2024. £6.7m of the loan was utilised leaving a balance of £2.9m. At the time it was shown that purchasing vehicles with the use of a loan was more cost effective than leasing vehicles.

2.2 As a consequence of the emerging Environmental Services Strategy different types of vehicle are likely to be procured and new infrastructure may be required.

2.3 The current borrowing costs are higher than when the previous loan facility was approved and this will result in increased financing and revenue costs. This position is not not unique to TLC and will affect most businesses directly and indirectly. Lease vehicle costs have also increased due to the recent inflation and also due to the increased cost of capital. These pressures are also seen in the leased vehicle market.

2.4 As part of the 2021 project to insource the vehicle repair workshop TLC acquired the fleet workshop. This allowed for an acquisition model to be adopted for the fleet and greater control and opportunity to influence the cost base and vehicle downtime. Through an initial efficiency project and continual improvement TLC have delivered greater control on the cost base to repair and maintain vehicles, lower costs together with reducing vehicle downtime.

2.5 Through a detailed and carefully engineered service programme, TLC have been able to reduce vehicle repair costs and ensure the vehicles are able to operate for a longer life span than previously managed, which ensures the cost of the vehicle purchase is spread over a longer period making the vehicle costs more cost efficient.

2.6 If TLC were to move to a leasing model, the cost efficiencies the workshop brings will be lost, as the maintenance element will be risk priced by the market. Equally the workshop will be largely redundant as with a leased vehicle the servicing and repair work does not usually sit with the customer.

2.7 The emerging Environmental Services Strategy is likely, as a first step, to recommend a transition to biofuels for existing/new fleet using diesel. This transition is expected to be managed with relative ease by TLC.

2.8 Appendix 1 is a comparison of replacing 68 of the fleet vehicles by leasing or purchase with the loan facility. It shows that it is more cost effective to purchase vehicles.

3. FLEET REPLACEMENT – FUNDING REQUIREMENT

3.1 The size of the facility being recommended is £15m based on current market values for diesel vehicles as the green equivalent vehicle prices and related infrastructure are not yet known. The length of the facility requested is 6 years which matches the length of time to replace the fleet/length of life of the vehicles . The interest rate to be charged by the Council for any draw down will match the prevailing PWLB rate plus 0.25%. The loan draw-down will be over six years and be fully drawn down by the end of March 2030.

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

4.1 The costs associated with vehicles: depreciation; forms part of the total cost for each of the services provided to the Council by TLC. The total depreciation value is c£2.1m, which is a blended estimate based on the mix of depreciation calculations for either 6 or 8 years. The current budget for depreciation held by the Council is £1.211m which reflects reduced depreciation costs as 65% of vehicles are fully depreciated their use has been maximised to provide lower costs.

4.2 As vehicles are replaced the Council’s depreciation budget will need to increase in line with the replacement. This would mean an increasing the budget by c£0.890m, which is likely to be staggered over a 3-4 year period in order to replace the ageing fleet. This will be factored into the MTFP at the next review. Having the loan facility should ensure that the depreciation values are controlled more effectively that having to lease vehicles or borrow at commercial rates.

4.3 The facility and modelling has been based on existing vehicle costs and will change as the emerging Environmental Services Strategy (see 3.1) is implemented and vehicle manufacturing and production responds to the need to de-carbonise vehicles.

4.4 TLC have repaid or are repaying all previous loans with no issues. Sale of the assets would help to mitigate the risk to the Council of unpaid loans should this occur.

5. LEGAL CONSIDERATIONS

5.1 The Council is the sole member of Totally Local Company and consequently has control over the company.

5.2 The Council supports the position that investment in fleet under a new green strategy for fleet is essential for fulfilling services to the Council.

5.3 The Council has the power to make investments under s12 of the Local Government Act 2003. The Council must have regard to statutory guidance issued under s15 of that Act. The Guidance is clear that a loan to a Council owned subsidiary company is considered to be an investment within the meaning of s12.

5.4 The Guidance further refers to the relevant codes of practice issued by CIPFA relating to managing investment and the requirement for a Council capital and investment strategy. Rather than specific guidance as to requirements for each and every investment the Council undertakes, the Guidance sets out key principles to be adopted in a Council's capital and investment strategy that is approved annually. Any loan to TLC will comprise one element of the Council's overall capital and investment strategy which as a whole has regard to the Guidance. In particular, in relation to lending, the Council needs to demonstrate across its loan book (to Stockport Active (trading as Life Leisure), Stockport Homes Limited and TLC and any other loans made):

- total exposure to loan is proportionate, having regard to the benefit to be gained;
- reasonable security from loss of capital funds using acceptable standards to measure credit risk;
- appropriate credit control, having regard to the borrowers and amounts concerned; and
- the Council has approved formally the total amount of lending and that is within its capital strategy.

5.5 The capital programme and strategy which includes all loans demonstrates that we are satisfying the guidance.

Subsidy Control

5.6 In addition to the characteristics of investment in a subsidiary set out in paragraphs 5.1 to 5.5 the Council must consider whether or not the loan to TLC (which is expected to be cheaper than a loan available to TLC on the commercial market) may comprise a subsidy, and if so, whether that subsidy is lawful or not within the meaning of the Subsidy Control Act 2022.

5.7 The activities for which the fleet are being procured are not considered to be economic activity as they will be utilised to carry out services at no cost to the residents of Stockport which are statutory duties of the Council. In the main covering the following services on a cost plus basis (plus being zero apart from Street Lighting Planned which is c2.5% of the cost plus services):

- Refuse Collection
- Highways & Gulley Maintenance
- Street Lighting Maintenance & Planned Maintenance
- Greenspace & Playground Maintenance
- Street Cleansing
- Arboriculture Services

5.8 Since TLC in providing these services is not undertaking economic activity, it does not fall within the definition of an “enterprise” in the Subsidy Control Act 2022 for the purposes of subsidy control and no subsidy arises.

5.9 In order to ensure TLC continues to fall outside the definition of an enterprise, it is vital that the benefit of the loan does not cross subsidise economic activity either, such as commercial waste collection, office cleaning or provision of school meals catering services. Therefore, TLC will need to ensure that the vehicles purchased using this facility, or capital receipts from the sale of replaced vehicles, or any other benefit arising can be ring fenced from services such as commercial waste, school meals, and cleaning which would be considered economic activity.

5.10 Therefore we do not consider this to be a subsidy within the meaning of the Subsidy Control Act 2022 even though it may be cheaper than TLC can borrow on a commercial market basis.

6. HUMAN RESOURCES IMPACT

6.1 None

7. EQUALITIES IMPACT

7.1 Not required

8. ENVIRONMENTAL IMPACT

8.1 Enables the Environmental Services Strategy which is currently being devised to reduce carbon emissions.

9. CONCLUSIONS AND RECOMMENDATIONS

9.1 Scrutiny is asked to comment on the report.
9.2 The Cabinet is recommended to:

9.2.1 Approve the provision of a loan facility to TLC to implement the Environmental Services Strategy with the terms of individual tranches, together with a financial appraisal, delegated to the Assistant Director, Finance/Deputy S151 Officer in consultation with the Cabinet Member for Finance & Resources.

9.2.2 Delegate extensions to the value of the facility to the Assistant Director, Finance/Deputy S151 Officer in consultation with the Cabinet Member for Finance & Resources.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Jonathan Davies on Tel: 218 1025 or by email on jonathan.davies@stockport.gov.uk