



CABINET REPORT

Report Title	Environmental Services Re-provision Contract – Capital Asset Financing
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AGENDA STATUS: **Public**

Cabinet Meeting Date:	15 th November 2017
Key Decision:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	LGSS
Accountable Cabinet Member:	Councillor Brandon Eldred
Ward(s)	All wards

1. Purpose

- 1.1 To advise Members of the steps being taken to ensure a value for money decision on the financing of the assets (vehicles, plant and equipment) that will be used to provide the Environmental Services Re-provision Contract throughout the period of its operation

2. Recommendations

That Cabinet:

- 2.1 Notes and understands the content of this report
- 2.2 Gives delegated power to the Chief Financial Officer in consultation with the Cabinet Member for Finance to determine the optimum value for money method of financing assets that is to be used in providing the Environmental Services Re-provision Contract throughout the period of its operation.

- 2.3 Subject to the outcome of recommendation 2.2 include the capital expenditure implications into the Council's Capital Programme if the Council were to purchase the assets.

3. Issues and Choices

3.1 Report Background

3.1.1 The Council's Environmental Services contract is currently undergoing a re-tendering process and has currently reached the stage of evaluating initial tenders.

3.1.2 The new contract will include the provision of dedicated capital assets that will be utilised in providing the services throughout the period of its operation.

3.1.3 The remaining bidders have currently included the costs of providing such assets as:

- A fleet of refuse collection vehicles,
- Containers for collecting waste and other materials,
- Vans, trucks mowers etc. for grounds maintenance,

Within their bids and have provided the costs of these elements separately within their bid documents.

3.1.4 It is currently common practice for contract specifications within this sector to require bidders to detail the assets (including costs) that they would employ in the performance of the contract. However, it can often be better value for money for the Council to provide these assets and therefore to fund them as it can have better access to cheaper borrowing (e.g. from the Public Works Loan Board (PWLB)), from framework agreements or to fund from its own reserves. As a result, many contractors now expect authorities to test the value for money aspect and in many cases to opt to finance the acquisition of these assets themselves.

3.1.5 Value for money involves the optimal use of resources to achieve the intended outcomes. It can be further itemised as:

- Economy (Spending less): Minimising the cost of resources used or required
- Efficiency (Spending well): The relationship between the output for goods or services and the resources to produce them.
- Effectiveness (Spending wisely): The relationship between the intended and actual results of public spending.

3.1.6 Therefore, Capita Asset Services Ltd., who are the Council's treasury advisors, have been commissioned to provide a report that compares the alternative methods of providing the financing of the capital assets required by bidders as part of the evaluation process. The alternatives to be considered are:

- Borrowing -This would usually be from PWLB that give local authorities preferential rates of interest that are significantly better than commercial enterprises can achieve.
- Leasing – Two types of lease can be obtained. Firstly it may be utilising an operating lease where ostensibly the asset remains an asset of the lease company resulting in a reasonably high residual value at the end of the lease period and the asset is expected to be handed back. This type results in a revenue hire charge only and the asset does not appear on the Council's balance sheet. The second type of lease would be a finance lease where a relatively low residual value is expected at the end of the lease period with there being an option to pay a fee in order to retain the asset. This type of lease results in the assets being shown on the balance sheet with annual payments including an element of interest that is a revenue cost and an element of repayment of principal that reduces borrowing shown on the balance sheet. Leasing companies tend to specialise in providing leasing finance in specific sectors and for types of assets.
- Use of reserves – This would involve the use of the Council's existing reserves and would result in a reduction in the level of investment income achievable.

In general, the potential cost savings achievable by the Council undertaking the financing of the assets is in the region of £105 per £1,000 of purchase cost value over 10 years. Indicatively, the purchase cost of the assets involved in servicing this contract would be circa £8.5 m (Over 10 years).

3.1.7 Based on the outcome of Capita's report and comparing its recommendations with the costs included within the final tender bids, permission is sought from Cabinet for the Chief Financial Officer to make a decision on which option is taken in respect of the financing of the assets required to provide the Environmental Services within the contract.

3.1.8 Given in the table below is the timetable that is in place for the re-provision which includes details of the point at which Capita will report their findings to the Council.

Stage	Date
Issue of invitations to submit final tenders	23 October 2017
Final tender submission	21 November 2017
Feedback evaluation of funding options by Capita	27 November 2017
Final tender evaluation ends	21 December 2017
Cabinet meeting for award approval	January 2018
Award and execution of contract	January 2018
Contract commences	4 June 18

3.1.9 Additionally, in order to bring the facilities at Westbridge Depot up to standard all remaining bidders have been asked to include a sum for the refurbishment.

Any refurbishment undertaken could either be included within the capital programme or require revenue expenditure. Any work undertaken will be undertaken by the Council on its own asset (Westbridge Depot).

3.2 Choices (Options)

3.2.1 Members may or may not wish to give delegated powers to the Chief Financial Officer and the Cabinet Member for Finance to determine the financing method. However, the period available from award of contract to the commencement is liable to be reasonably short, as detailed in the schedule of dates as shown at 3.1.8, and there would need to be a reasonable lead time to procure any vehicles, plant and equipment for the start of the contract on 4 June 2018. Any requirement to come back to Cabinet for a further decision on this element of the contract would delay the procurement process.

3.2.2 Additionally, as detailed at 3.1.6 there are options as to the method of financing used should the preferred decision be for the Council to finance the assets. These include:

- Borrowing
- Leasing
- Use of reserves

3.2.3 Whichever option is taken, it should be ensured that the decision demonstrates value for money as detailed in paragraph 3.1.5.

4. Implications (including financial implications)

4.1 Policy

4.1.1 There are no policy implications directly arising from this report.

4.2 Resources and Risk

4.2.1 The financing of the assets by the Council is likely to realise a saving on the contract in net terms. However, there would still be costs including interest and the provision of minimum revenue provision (as stipulated by statute) as a result of this option. The assets would also potentially be shown on the Council's balance sheet.

4.2.2 The Council's continuation budget and the Medium Term Financial Plan (MTFP) already include amounts related to the re-provision of the Environmental Services contract and consequently the costs of providing the assets related to the new service. However, should the decision be made that the Council will purchase the assets there will be a requirement to transfer sums from the service budget to the capital financing budget to cover both the costs of interest and any minimum revenue provision. There would also be a need to include the purchase of any assets within the capital programme and possibly seek the funding of that capital expenditure from either revenue contribution or from reserves. A full report on the requirements will be included in the report to Cabinet in January 2018.

4.2 Legal

4.3.1 Should the Council purchase and finance the assets, as stated in paragraph 4.2.1 they would then be assets of the Council. Consequently, there would then be a need for a leasing agreement between the Council and the bidder awarded the contract to cover the use of the assets. This would cover the maintenance of the assets, and the required duty of care required from the contractor in order to ensure the appropriate asset life or the correct return conditions (in the case of leasing).

4.3.2 A draft leasing agreement is being considered by Legal.

4.4 Equality and Health

4.4.1 An equality impact assessment was undertaken as part of the commissioning options review process, which was considered by cabinet on 16th November 2016.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 The proposals in this report will help to deliver the following corporate plan priorities:

- A clean and attractive town for residents and visitors
- Enhancing and encouraging participation
- Delivering quality modern services

5. Background Papers

Environmental Services Re-provision – Selection of Service Delivery Option,
Cabinet Report, 16th November 2016

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