

Apse Transport & Mechanical Advisory Group

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# Assessing the Procurement Options for Fleet Management

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# FINANCING ASSETS

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## FINANCE



Features & Benefits  
of various methods of  
acquiring Commercial Vehicles.

# ACQUISITION METHODS

Cash.  
Public Works Loan Board.

Hire Purchase.

Finance Lease.  
Operating Lease.

Contract Hire.  
Contract Purchase.



# CASH

Cash may be king.

It may not always be the best option.

Cash retained in the Authority is useful.

Liquidity / Alternative funding lines.

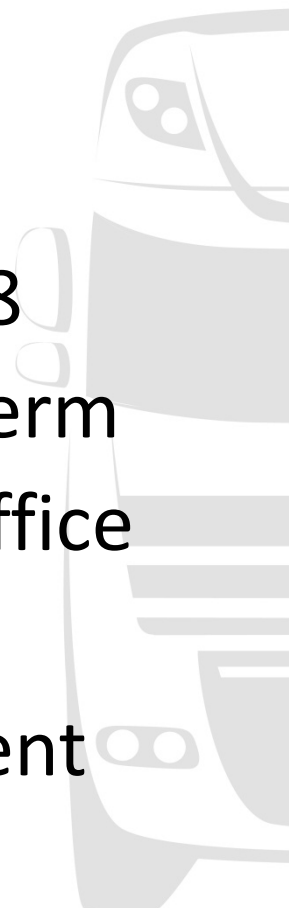
External funding of Assets makes sense.

Competing areas of authorities fight for Cash



# Public Works Loan Board

- Originated in 1793
- Formally established 1817
- Works under legislation from 1846 & 1968
- Managed by 12 Commissioners – 4 year term
- 2002 part of the UK Debt Management Office
- Interest rates set by HM Treasury
- Sole purpose is to lend to Local Government



# Public Works Loan Board

- Recently had its Loan limit raised from £55m to £70m
- PWLB borrows its money from National Loans Fund
- They provide fixed rate loans for up to 50 years and variable rate for up to 10 years
- In 2009-10 financial year granted loans of £5,080m.
- Current loans outstanding at 31/03/10 - £51,218m.
- In 09-10 PWLB raised £1.8m in fees from borrowers
- A Bank by any other name?
- Note there is pressure on PWLB funds and they are looking to reduce lending.
- More focus on major capital infrastructure than transport



# HIRE PURCHASE

- OWNERSHIP LIES WITH CUSTOMER
- IMPLICATIONS
  - VAT all payable by Authority up-front
  - Asset on Balance Sheet
  - LA claims writing down/impairment allowances
  - Interest costs charged against the revenue account





# ***HIRE PURCHASE***

THEREFORE the Local Authority has all the  
benefits of OWNERSHIP



# HIRER PURCHASE - FEATURES

- VAT ALL PAYABLE UP-FRONT BY HIRER
- ASSET ON BALANCE SHEET



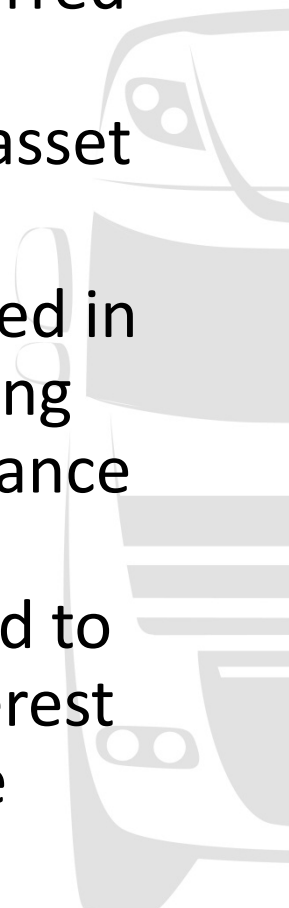
# FINANCE LEASE

- OWNERSHIP LIES WITH LESSOR
- IMPLICATIONS
  - VAT all payable by Lessor
  - Since SSAP21 and FRS5 all assets on Finance Leases must be capitalized and shown on Balance Sheet
  - Capital element of future rentals shown as a liability
  - Can enter 2<sup>nd</sup> period or dispose of with a rebate of Sale Proceeds



# FINANCE LEASE - FEATURES

- Finance leases, which have substantially transferred to the Local Authority the benefits and risks of ownership of a fixed asset are treated as if the asset had been purchased outright.
- Assets acquired under finance leases are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals comprise capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to revenue on a straight line basis over the term of the lease.



# OPERATING LEASE

## DEFINITION

An operating lease contract is potentially made when the NPV of the capital element of the rentals, in total, do not equal 90% of the capital cost of the asset.

**OWNERSHIP LIES WITH LESSOR**

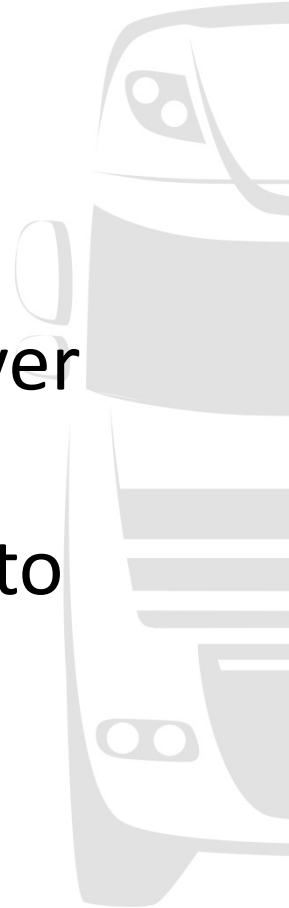


# OPERATING LEASE

## DEFINITION

- Rental payments, net of benefits received, under operating leases are charged to the revenue account on a straight line basis over the life of the lease.
- The Lessee has no rights to take the asset to ultimate ownership.

OWNERSHIP LIES WITH LESSOR



# OPERATING LEASE - FEATURES

- ASSET OFF BALANCE SHEET AS LONG AS THE 90% TEST IS PASSED
- LEASING COMPANY CLAIMS ANY WRITING DOWN ALLOWANCES
- NO INTEREST IN PROFIT OR LOSS ON DISPOSAL
- RENTAL ATTRACTS VAT AT PREVAILING RATE



# CONTRACT HIRE ?

AS OPERATING LEASE

BUT

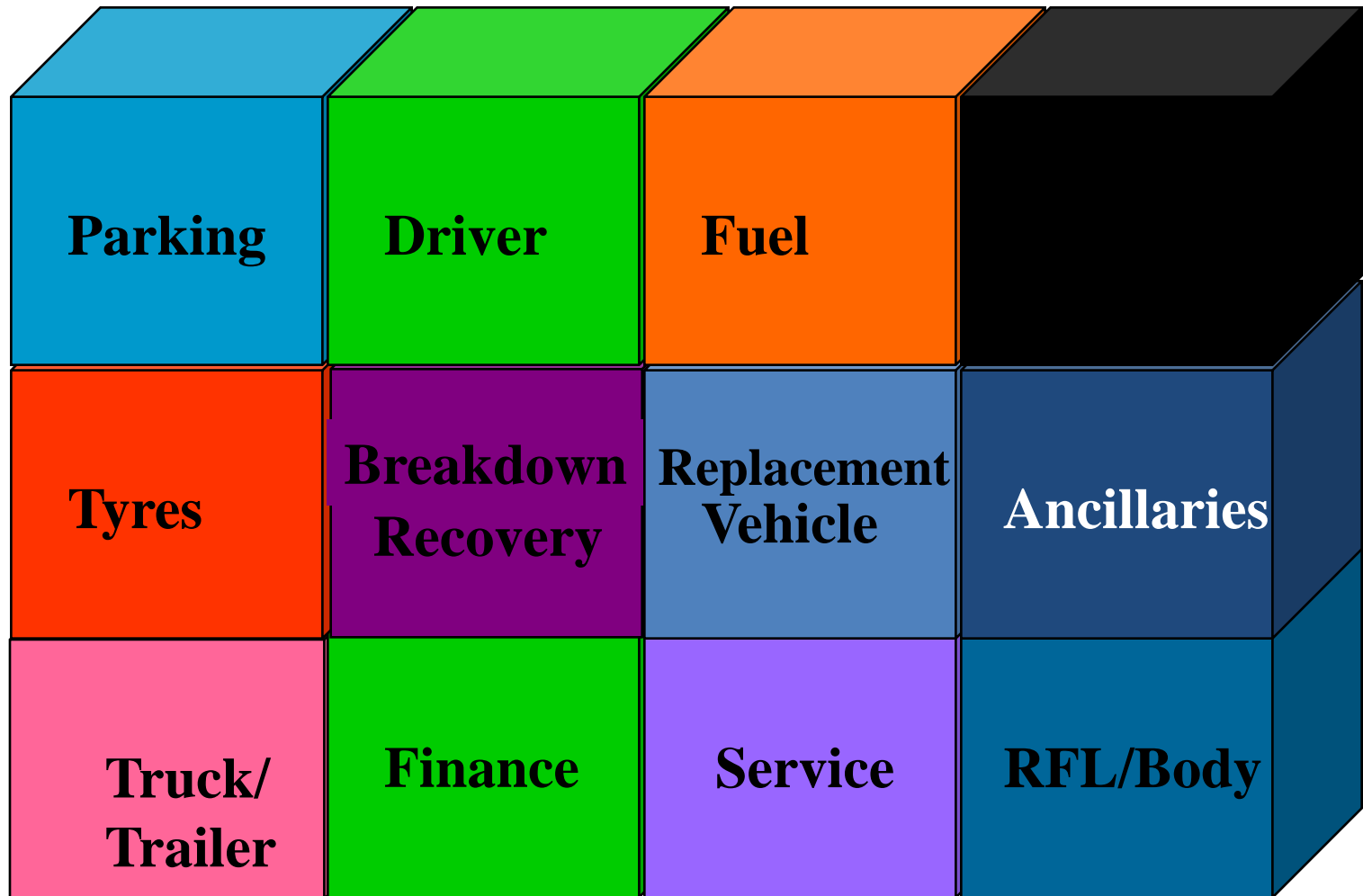
INCLUDING ADDITIONAL SERVICES

For Example: Repair & Maintenance





# “CONTRACT HIRE”



# CONTRACT PURCHASE

- OWNERSHIP LIES WITH CUSTOMER
- IMPLICATIONS
  - Plan is as Hire/Lease Purchase – Except:~
  - A Guaranteed Future Payment Value is included.
  - Hirer pays a fee to lock in the value.
  - Hirer has two options at end of agreement:~
    - Pay the GFPV and take ownership, or
    - Return the vehicle to PFPLC with (subject to meeting the return conditions) no further payment due. No interest in profit or loss.



# CONTRACT PURCHASE - FEATURES

- VAT ALL PAYABLE UP-FRONT BY CUSTOMER
- ASSET ON BALANCE SHEET



# CONTRACT PURCHASE

THEREFORE

the HIRER has all the benefits of

OWNERSHIP

But with

The benefit of a **lower monthly rental**

due to the effect of the

Guaranteed Future Payment Value.



# CONTRACT PURCHASE

## As an Example:~

A Refuse Collection Vehicle costing say £105,000.00.  
Funded via a PWLB loan on a 5 year term with Annual  
in Advance payments the charge to revenue would be  
circa £22,500.00 per year.

Funded via Contract Purchase on the same term &  
profile the charge to revenue would be circa  
£19,250.00

or a 14% reduction.

Using a facility such as Contract Purchase could offer Local  
Authorities the potential for reduced revenue budget cost  
whilst retaining the benefits and flexibility of ownership



# THE DECISION PROCESS

What then are the drivers for your decision:~

- Ownership/Flexibility = Hire/Contract Purchase
- Leasing/Flexibility = Finance Lease
- Off Balance Sheet = Operating Lease
- Fixed Cost Operations = Contract Hire/Outsourcing



# CONCLUSION

PACCAR FINANCIAL is able to provide all of the facilities shown in this presentation.

Please feel able to contact me at any time for further help or advice.



# Assessing the Procurement Options for Fleet Management

THANK YOU FOR YOUR ATTENTION

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