



Finance and Administration Committee – 13 September 2018

Agenda Item 1387/18

Groundworks Equipment Assets Replacement and Policies

Introduction

The most significant assets held by the Council are the agricultural machines used to deliver the Council's contract to maintain The Green and Stone's Orchard, namely: a Tractor; a Ride-on Mower (Kubota); a Chipper; a rear grass cutting flail; a Side Arm Flail; 2 trailers and a Works Utility vehicle (Land Rover).

Each of the assets detailed above has now come to or exceeded the end of their economically useful lives and consideration is required of a programme of replacement. As an example the ride-on tractor, approximate trade-in value £6,000 recently required significant repair work to the cutting deck costing over £860. It subsequently broke down on an unrelated issue and had to be transported by lorry to the main agent. The main agent for these items, which also maintains the equipment, is taking longer to service it when required as parts are becoming increasingly difficult to source.

Decisions are required urgently to replace the equipment, to agree the financing method and to approve two related policy proposals.

Discussion

A number of matters flow from the description of the current situation set out above.

Practical Matters

Replacement programme

The equipment detailed is essential to the servicing of the contract with Three Rivers to maintain The Green and Stone's Orchard. Although the equipment has been kept in extended service for a number of years, the risk of breakdown is increasing, and in some cases has happened. The high temperatures of the recent summer have inhibited grass growth to the extent that no cutting has been required since early June – fortunate as over that period the ride-on tractor has been out of service. The Council now needs urgently to begin the process of replacement.

a) The Committee is asked to agree a structured programme of replacement.

Lease not buy

The Council is being offered the opportunity to acquire the assets on a lease purchase basis (2.7% interest) – offering the full risks and rewards of ownership but with payment spread over several years. The arrangement includes a full maintenance and warranty for the term.

This method has two specific advantages: reducing the immediate cash outflow of the purchase and reducing the impact, in the years immediately after purchase, on precept payers.

The table at the end of this paper shows the impact of the proposed purchases and the proposed replacement cycle. For clarity only the first (this) and second replacement cycles are shown.

- b) *The Committee is asked to approve the proposal to acquire the replacement assets via a lease purchase arrangement spread over a number of years rather than outright purchase.*

Policy Matters

Proposed Retention Policy

Historically the Council has had an unclear policy regarding equipment replacement resulting in all of the equipment progressively deteriorating to the point reached where the equipment is becoming unreliable and will progressively become more expensive to maintain or repair and of most concern is that parts may no longer be available due to the age of the equipment. This has led to the current extreme situation of needing to replace everything.

The event of replacing a significant number of assets at one time presents a good opportunity to set a policy for future replacements on a structured basis. On the premise that items covered by a comprehensive warranty that includes maintenance to manufacturer's standards for the period, it is reasonable to assume that the economic working life should exceed the warranty period by a minimum of one and in some cases two additional years. Therefore it is suggested that the Council aims to replace equipment two years after the lease purchase liability is settled in full for a lease of four years' or more duration and suggested that the Council aims to replace equipment one year after the lease purchase liability is settled in full for a lease of less than four years' duration. As different pieces of equipment will be subject to different lease/warranty periods, this will permit replacement purchases to be 'staggered' in future.

- c) *The Committee is asked to agree a revised retention policy for new equipment that permits some staggering of expenditure and a uniform treatment leading to controlled replacement before obsolescence.*

Cost to income and expenditure account

The Parish Council accounts on an annual basis for future replacements of fixed assets by making transfers to reserves thus accumulating a balance that should eventually more or less match the capital sum (irrespective of the financing method). This smooths the impact that a succession of lump sum payments would have on the accounts.

The decisions being proposed above have the effect of reducing the period for which assets are kept in use and therefore the transfer to reserves will need to be accelerated so as to maintain the smoothing effect in the future.

The total replacement cost of all the assets, less any trade-in value, is approximately £90,000 at current prices. It is recommended that the assets are replaced over, effectively, a 9 year cycle. It follows that the annual transfer should be progressively increased to £10,000 – the level at which the annual transfer was in 2011/12.

- d) *The Committee is asked to approve increasing the annual transfer to reserves to more closely align the annual cost to the precept to the aggregate net cost of all the equipment divided by the average retention period.*

Agricultural machinery is affected by cost increases much like any other commodity and even though we have benefitted from a low inflation/low interest economy for the last ten years, it is likely that this situation will change in the near future. It is suggested that it would be prudent to increase the level of the annual transfers to reserves by £150 (5%) immediately and by the increase in agricultural equipment prices for each year thereafter.

- e) *The Committee is asked to approve increasing the transfer to reserves each year by the published price index for agricultural machinery*

Recommendations

That the Committee recommends:

1. Council approves the replacement of assets via a lease purchase arrangement spread over a number of years rather than outright purchase.
2. Council agrees the structured programme of replacement.
3. Council agrees a revised retention policy for new equipment that permits some staggering of expenditure and a uniform treatment leading to controlled replacement.
4. Council agrees to a progressive increase in the annual transfer to reserves for asset replacement until the transfer reaches £10,000 per annum.
5. Council agrees annual increases in the annual transfer to reserves based on the published price index for agricultural machinery.

David Allison
Clerk to the Council
30 August 2018

Asset Replacement Programme

Machine	2018 prices																					
	Retail Price	Part ex price	Balance to Pay	Interest charge	Warranty	Duration (yrs)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	
First Replacement Cycle																						
Kubota F3890 ride on	20,405	6,000	14,405	1,627	2	4+1	4,008	4,008	4,008	4,008							*					
Kubota M6060 M5 Tractor	38,400	16,575	21,825	3,075	5	5+1	4,980	4,980	4,980	4,980									*			
Trimax S3 P3237 Roller Mower	6,890	1,500	5,390	790	3	5+1	1,236	1,236	1,236	1,236									*			
Batson Trailer	2,800	1,250	1,550 (pay cash)		1	6+1	1,550														*	
Hedge trimmer (Side Flail)	16,950	9,950	7,000	1,040		5+1		1,608	1,608	1,608			1,608								*	
Chipper	12,375	3,750	8,625	1,215		5+1		1,968	1,968	1,968			1,968	1,968								
Works Vehicle 4x4	35,000	14,000	21,000	2,940	5	5+1			4,788	4,788			4,788	4,788	4,788							
Second Replacement Cycle:																						
Kubota F3890 ride on							4,008		4,008	4,008			4,008	4,008								
Kubota M6060 M5 Tractor							4,980		4,980	4,980			4,980	4,980	4,980							
Trimax Roller Mower							1,236		1,236	1,236			1,236	1,236	1,236							
Batson Trailer																						
Hedge trimmer																						
Chipper																						
Works Vehicle 4x4																						
Annual Cost							11,774	10,224	11,832	11,832	14,580	12,372	18,588	18,530	18,588	7,824	14,580	8,364	8,364	6,756	6,756	
Reserves																						
Opening Balance							96,928	92,154	89,130	84,698	80,466	73,686	69,314	58,926	48,796	38,808	39,784	34,204	35,040	36,076	38,920	
From Reserves (Annual Cost above)							-11,774	-10,224	-11,832	-11,832	-14,580	-12,372	-18,588	-18,530	-18,588	-7,824	-14,580	-8,364	-8,364	-6,756	-6,756	
To Reserves							7,000	7,200	7,400	7,600	7,800	8,000	8,200	8,400	8,600	8,800	9,000	9,200	9,400	9,600	9,800	
Closing Balance							92,154	89,130	84,698	80,466	73,686	69,314	58,926	48,796	38,808	39,784	34,204	35,040	36,076	38,920	41,964	

NOTE: * = start of third Replacement Cycle but costs not included