

CABINET

11 JULY 2023

CAPITAL ADDITIONS REQUEST – WASTE FLEET REPLACEMENT SCHEME

Portfolio Holder: Councillor Simon Curry – Portfolio Holder for Climate Change and Strategic Regeneration

Report from: Richard Hicks – Chief Executive

Author: Ruth Du-Lieu – Assistant Director Front Line Services
Ian Gilmore – Head of Regulation & Environment

Summary

This report requests that Cabinet recommends that Full Council adds £17million to the Capital Programme to fund the replacement bespoke waste vehicle fleet.

1. Budget and policy framework

- 1.1. The recommendation within this report supports the Council Strategy priority *“Medway: A place to be proud of”, A clean and green environment*. The primary objectives are to:
- Ensure compliance with statutory duties
 - Meet statutory performance targets
 - Ensure continuity of a frontline service
 - Provide services within agreed budgets
 - Meet requirements to achieve efficiency gains
 - Provide environmentally sustainable services.
- 1.2. As this report seeks additional funding to be added to the Council’s Capital programme it is a matter for Full Council.

2. Background

- 2.1. Medway Council has a core statutory duty to collect waste and recycling from domestic properties. It is one of the few universal services provided to all 279,800 Medway residents and makes a tangible difference to the environment in which we live. There are more than 17 million waste collections annually in Medway.

- 2.2. Since 2013 Medway residents have had a weekly waste collection service for refuse, recycling and organic waste for 119,400 homes (Monday – Friday). Operationally this requires 42 vehicles, not including spares and spot hires, to make 66,000 waste collections. On average, one vehicle makes 1,600 waste collections daily.
- 2.3. Waste vehicle type and collection schedules were determined by the 2013 Department for Communities and Local Government (DCLG) grant. The DCLG grant funded the current Euro 5 waste collection heavy goods vehicle (HGV) fleet. The 2013 fleet is the property of Medway Council (average working life 7-9 years).
- 2.4. The DCLG grant permitted the Council to offset the full market price for waste collection since October 2013 by fully funding the waste collection fleet costs.
- 2.5. Since October 2019, Medway Council's joint venture with Norse Commercial Services, Medway Norse, has provided the waste collection and street cleansing service. The annual fee is an inclusive price which encompasses fleet maintenance and spot hire costs (annual service budget). Increasing spend in these budget areas prohibits potential in-year savings from wider service efficiencies.
- 2.6. Independent reviews in 2019 and 2022 advised that the fleet has been very well maintained and that an extended life of 24-36 months could reasonably be expected.

3. Options

- 3.1. The following financing options have been considered which all have roughly the same vehicle lead time:
- 3.2. **Option 1: Leasing vehicles**
An operating lease would allow the Council to use a new or used vehicle fleet for a specified duration. Maintenance and servicing costs can be included or excluded from the lease agreement. The vehicles are returned when the contract ends.
- 3.3. **Option 2: procurement via Medway Norse**
The Council could commission Medway Norse to procure and finance the new fleet. Private sector rates of borrowing to fund the new fleet requirements would be more costly and repayments would include a management fee.
- 3.4. **Option 3: prudential borrowing**
This would involve the Council using prudential borrowing to fund the procurement using procurement framework. This will give the Council flexibility when it comes to any future procurement the waste collection and cleansing contract in future. **This is the recommended option.**
- 3.5. Medway Council have declared a climate change emergency. Unfortunately, the option of low-emission vehicles such as electric or hydrogen are

discounted as neither of Medway's two operational depots are suitable. Pier Approach Road is a small urban depot surrounded on three sides by residential accommodation (operator license for 60 HGV's). Maidstone Road is a semi-rural depot with no provision for electric or hydrogen power (no heavy goods operator license). Both depot locations are at full vehicle capacity. Depot infrastructure availability is being considered by the new Medway Labour and Co-operative administration.

4. Advice and analysis

- 4.1. Option 1: investigations (in partnership with Medway Norse and the Council waste and finance teams) have concluded the option of lease would not provide best value for money at this time. However, this is the present situation, and it is important to recognise that the market and pricing is continually changing. Leasing the vehicles also means that Medway Council will not own the fleet at the end of the lease term.
- 4.2. Option 2: Normally vehicle procurement would coincide with service redesign to maximise efficiencies as part of the tender process and enable capital expenditure to be borne over the lifetime of the contract. The Medway Norse waste agreement has 6 years remaining and annualised vehicles repayments would require 8 years. The Council would incur a management overhead charge on the repayments and ownership would be subject to negotiation.
- 4.3. Option 3: prudential borrowing would not change the contract agreement with Medway Norse and the annualised vehicle repayments would be outside of the agreement. The vehicles will be a Council asset and provide stronger business continuity. The Council would be well placed to convert these vehicles at end of life to electric, hydrogen or other low-emission technology, taking a more environmentally sustainable approach to future fleet replacement. As part of this option, under the procurement process we will continually assess the appropriateness of acquiring any vehicles using Option 1. This continual assessment would look to deliver value for money and technological advancement, especially around the delivery of our climate action agenda.
- 4.4. Build time is 12-18 months from order for bespoke Euro 6 vehicles (anticipated delivery Spring-Autumn 2025).

5. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Not having a fleet able to complete statutory waste collection	Unless the Council has a full complement of RCVs elements of the service may not be delivered	Where necessary use spot hire to supplement the 2013 fleet until 2025 fleet is fully operational	D3

Risk	Description	Action to avoid or mitigate risk	Risk rating
Manufacturers availability of suitable refuse collection vehicles (RCV)	There are a finite number of suppliers of RCVs with limited build capacity	Use procurement frameworks to secure access to markets and value for money	D2
Revenue budgets unable to sustain increase spot hire and maintenance pressure	The aging fleet has a progressively increasing cost burden	Rotate 2013 fleet and prioritise replacement of most aged vehicles	C2

Likelihood	Impact:
A Very high B High C Significant D Low E Very low F Almost impossible	1 Catastrophic (Showstopper) 2 Critical 3 Marginal 4 Negligible

6. Consultation

- 6.1. An ongoing working group comprising of officers from Finance, Category Management, Environmental Services and Medway Norse has been established to oversee the replacement RCV fleet procurement.

7. Climate change implications

- 7.1. Euro 6 HGV diesel is the best available technical and environmental option for weekly waste collections in Medway at the time of report writing. The Euro 6 engines will improve our fuel efficiency and help reduce current emissions from the Euro 5 fleet.
- 7.2. The vehicles will be specified to have electrically powered ancillaries (lifts and compactors) to reduce need for vehicle idling emissions.
- 7.3. A fully functioning twin pack recycling fleet will allow separate collection of recyclables (presently, separated recycling must be co-collected when no twin pack recycling vehicles are available for spot hire).
- 7.4. In the UK the sale of new petrol and diesel vehicles will end by 2030. The Council will closely monitor industry developments for low-emission fleet renewal or replacement as part of service optimisation.

7.5. In the coming years vehicle retrofit/ refurbishment will likely become more common place with the advancement of low-emission technology. The Council will be well placed with the new Euro 6 fleet to convert these vehicles towards the end of their working life taking into account the best environmental technologies options and available infrastructure in Medway as described in 4.3.

8. Financial implications

8.1. The indicative capital cost of new waste fleet is up to £17million dependent upon the final vehicle configuration, global market supply chains and the effect of UK inflation changes on prices, to be funded by borrowing. Based on current interest rates, the borrowing required will cost c£2.7million each year, and this pressure will need to be addressed in the budget build for 2024/25. The final price will not be confirmed until the order is placed which will be reported and this will be reported through Cabinet..

8.2. Until the fleet is replaced, financial liability for maintenance and hire vehicles is open ended as described in section 2.4. Our forecast revenue cost for 2023/24 is currently around £318,000. The Gateway 1 procurement commencement report anticipated in the autumn of 2023 will provide more details on the 2013 fleet condition.

8.3. The waste collection and street cleansing annual service budget is reviewed every calendar year in partnership between Medway Council and Medway Norse. Once the fleet replacement programme is mobilised the annual budget will be reviewed as part of the budget build for 2024/25.

9. Legal implications

9.1. Additions to the Capital Programme are a matter reserved for full Council and this report asks the Cabinet to recommend to full Council to agree to the addition of £17million to the Council's capital programme, funded from borrowing to procure a Council-controlled waste fleet.

9.2. The Council has a statutory duty to provide refuse and recycling collection service.

10. Recommendations

10.1. It is recommended that Cabinet recommends to full Council to agree to the addition of £17million to the Council's capital programme, funded from borrowing to procure a Council-controlled waste fleet, and note that the revenue impact of this procurement will need be addressed in the 2024/25 budget build.

11. Suggested reasons for decision

- 11.1. Option 3, procuring the new waste fleet using prudential borrowing, offers best value for money and flexibility in future service provision.

Lead officer contact

Ian Gilmore, Head of Regulatory & Environmental Services
Telephone number: 01634 331191
Email: ian.gilmore@medway.gov.uk

Appendices

None

Background papers

None