

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Bram Kainth, Executive Director of Place, in consultation with Cllr Sharon Holder, Cabinet Member for Public Realm

Date: 4 October 2024

Subject: Purchase of vehicles for waste, recycling, and street cleansing contract

Report author: Pat Cosgrave, Service Lead, Street Environmental Services

SUMMARY

The report recommends that the Council authorise the waste contractor to purchase five second hand diesel refuse collection vehicles (RCVs) on its behalf. This is an interim measure to reduce current, short- and medium-term vehicle hire costs without impeding the current work to introduce electric RCVs as quickly as possible.

- The recommended vehicles are a like for like replacement but newer models of the vehicles currently being hired, so are not expected to result in a net increase in emissions.
- Purchasing second hand vehicles as opposed to new vehicles avoids the climate impacts associated with producing entirely new vehicles.
- Once the council has implemented further charging infrastructure to transition towards an electric waste fleet these vehicles can be sold on and enable the council to realise some residual value which would not arise from continued vehicle hire.
- Section 11 of the report details the period over which the vehicle purchase cost offsets the hire costs.

As part of the new waste, recycling, and street cleansing contract effective from January 2023, the Council is required to provide funding for the necessary vehicles to deliver these services (Authority Financed Assets). As agreed in the new waste contract, the vehicles will be procured by the contractor on behalf of the Council, and so will be owned by the Council. The contract has an aspiration to have an emission free fleet. However, whilst fully electric refuse collection vehicles (RCVs) are available on the market, the authority does not have the required electric charging infrastructure in place to support the purchase of these vehicles currently. Work is underway to scope this in detail and it is likely to include major works including upgrades to the local power supply infrastructure.

This report sets out the capital investment requirement for the purchase of the vehicles, at a total one-off capital cost of £840,000, to be funded from existing capital budgets, as per finance comments.

RECOMMENDATIONS

1. To note that Appendix 1 is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).
2. To instruct the waste, recycling and street cleansing contractor to procure five second hand street cleansing vehicles on behalf of the Council, at a total one-off capital cost of £860,000, to be funded from existing capital budgets.

Wards Affected: All

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	The proposals will realise a better medium term financial outcome for the council by purchasing an asset that will have residual value and mitigating ongoing vehicle hire costs.
Rising to the challenge of the climate and ecological emergency	By purchasing second hand rather than new diesel vehicles the council is not contributing to the emissions that would be generated by the production of new vehicles

Financial Impact

The contract award report for the new waste, recycling, and street cleansing contract effective from January 2023 set out the expectation that additional investment in the Council's waste vehicle fleet would be required over the life of the contract. The recommended purchase of 5 second hand diesel Refuse Collection Vehicles in this report is in line with that expectation.

There is an existing capital budget of £2.62m for the purchase of electric waste vehicles, approved in January 2023, and it is proposed that this budget be used to fund the acquisition outlined in this report. This budget can be reviewed subsequently, when we are in a better position to move forward with the purchase of electric waste vehicles.

Separately, the service is continuing to progress the purchase of additional vehicles with the aim of further reducing vehicle hire costs. Subsequent purchases will be the subject of future decision reports as the vehicles become available for purchase.

Kellie Gooch, Head of Finance (Place), 18 September 2024
Verified by James Newman, AD Finance, 19 September

Legal Implications

These vehicles are required to enable the Council to undertake its duties in respect of street cleansing and refuse collection under the Environmental Protection Act 1990. The purchase of these vehicles is being undertaken in accordance with the terms of the Council's contract for Waste, Recycling and Street Cleansing and will be procured by the contractor and owned by the Council.

There is consequently no requirement for there to be a procurement exercise in relation to purchase of these vehicles.

John Sharland, Assistant Director of Legal Services
9 August 2024

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Proposals and Analysis of Options

1. In terms of funding the required service vehicles, Schedule 14 of the Waste, Recycling and Street Cleansing contract (Authority Financed Assets Protocol) states that *"the Contractor shall on the Authority's behalf and with the prior written consent of the Authority procure the Authority Financed Vehicles, such Authority Financed Vehicles being required to carry out the Services. The Authority Financed Vehicles will be owned by the Authority and will remain the property of the Authority"*.
2. Per Section 17 of the contract specification the Authority shall fund assets which are required for the direct operational delivery of the services and the Contractor shall be required to maintain all vehicles and equipment.
3. The Authority Financed Assets Protocol requires the Contractor to make a request for new assets in writing to provide evidence of the vehicles required together with alternative options in the current fleet and all fuel options to cover diesel/HVO and electric vehicles. This is to assist the Council meet its net zero carbon targets whilst also ensuring that there is the required electric charging infrastructure in place to support electric vehicle options.
4. The council is currently engaged in carrying out a feasibility study of the electrical draw down capacity that could be achieved at the Bagley's Lane depot. The feasibility phase will include working with power suppliers to obtain grid connection quotes, providing a concept design for potential charging solutions, assisting in developing a business case (including project costs and risks and carbon savings) and conducting initial engagement with contractors and suppliers.

5. Once the electrification feasibility work is completed officers will put forward a decision paper to request capital funding to carry out the necessary works to develop the infrastructure to support a green waste fleet. However, the end-to-end process from feasibility to completion could take at least two years, assuming the capital investment for electrification at Bagley's Lane is considered acceptable. Purchasing diesel/HVO vehicles is an interim measure that will defray vehicle hire costs and will leave the council with an asset of residual value once the depot electrification works are completed and we can begin the transition to electric RCVs.
6. As part of their final tender for the contract, the Contractor was required to provide an outline of the vehicles that they would require to deliver their solutions to the requirements of the contract specification.
7. The Contract envisaged the purchase of a number of refuse collection vehicles throughout the initial years of the contract, which would be purchased in a phased way to ensure a smooth age profile of the fleet and to allow for the purchase of electric vehicles as and when the required charging infrastructure would be in place.
8. As there is not the required infrastructure currently in place to charge electric RCVs, we hire non-electric RCVs, and the report recommends purchasing five second hand diesel RCVs as an interim measure to replace five hired RCVs. The advantage of doing this is that it will immediately begin to defray vehicle hire costs, the vehicles will be more immediately available than ordering new vehicles, and the emissions associated with the production of new vehicles will be avoided.
9. The existing waste fleet includes 36 RCVs and utilises a high level of vehicle hire to ensure flexibility over the medium term. However, with five suitable second-hand vehicles currently available this presents an opportunity for reducing costs while maintaining a high level of flexibility.
10. The costs of the vehicles will be £168,000 each, a total of £860,000. The proposed vehicles would be approximately two years old (registered in 2022), so approximately two years newer than the vehicles currently being hired (2020 registered).
11. The current hire cost of directly comparable vehicles is £4,182 each per calendar month. Therefore, the cost of purchase will outweigh the costs of vehicle hire for comparable vehicles approximately 40 months after purchase, as well as having the benefit of being authority owned assets and therefore retaining residual value when the authority wishes to dispose of the vehicles. It should also be noted that the purchase of the vehicles will help mitigate some of the risk of hire charges increasing over time
12. Having a portion of the fleet as 2022 registered diesel RCVs, potentially replaced in 2028 or 2030, may also help to reduce the initial capital cost in the year that the majority of the fleet moves to an electric RCV specification (potentially in 2026/2027, depending on the infrastructure works at Bagley's Lane), as the council may wish to gradually transition to electric vehicles to maintain a smooth age profile of the refuse collection fleet. Alternatively, when

the required infrastructure is in place, the council may consider the residual value realised from disposing of the recommended vehicles more quickly

13. The proposal would be to depreciate the vehicles over a four-year period. Details of the depreciation costs are detailed in Appendix 1. However, it should be noted Veolia have their own workshop staff within the depot, and it is likely with careful maintenance that the vehicles could be viable for a much longer period.
14. Option 1 – To not approve the capital requirement for the purchase of the Authority Financed Assets and continue to hire the comparable vehicles. This is not the recommended option. Without approval for purchase, the vehicle hire costs for comparable vehicles would exceed the purchase costs within 28 months.
15. Option 2 – To purchase new RCVs and depreciate over eight years. This is not the recommended option. Although the depreciation costs would be less per calendar month than with the used vehicle option there would also be a build time of approximately six months during which time the council would still be bearing vehicle hire costs for the comparable vehicles, estimated at £25,090 per vehicle. The purchase price of a new vehicle would not offset the comparable hire costs for approximately 48 months. The costs of new RCVs are volatile due to the recent volatility of the steel market, so the quotes obtained from the manufacturer comes with the caveat that there is a risk of the price increasing during the build slot if the price of raw materials was to increase.
16. Option 3 - To approve the capital requirement for the purchase of five second hand diesel RCVs for the reasons set out in sections 8 - 12 above. This is the recommended option.
17. Should approval be granted the capital budgets will be adjusted as necessary through the quarterly capital reporting framework, per the Finance comments to this report. The annual financing costs and associated capital budgets will need to be considered as part of the Council's MTFs Strategy in the relevant year.
18. Should approval be granted we will also continue to look for opportunities to purchase suitable second-hand vehicles to replace shorter terms hires to enable further savings, providing this does not compromise our move to greener fleet.

Reasons for Decision

19. The decision will allow the authority to save hire costs on vehicles required to deliver the core services of the contract whilst still allowing a level of flexibility to transition to electric vehicles as the required infrastructure becomes available.

Equality Implications

20. Officers do not consider that there are any negative impacts on any groups that share protected characteristics arising from this decision.

Risk Management Implications

21. The report sets out a rationale for purchasing vehicles for use in the waste fleet to ensure continuity of service and to enable the transition to a green fleet in the future, once the necessary infrastructure is in place and the model for the fleet has been agreed. This will ultimately support the Council's commitment to respond to the challenge of the climate crisis.

David Hughes, Director of Audit, Fraud, Risk and Assurance
7 August 2024

Climate and Ecological Emergency Implications

22. The proposed vehicles are a temporary measure whilst the service area carries out work on the infrastructure required to move towards a carbon neutral fleet, with the aim of depot electrification supporting this move.
23. Whilst the vehicles being purchased are diesel powered, the fact that they are second hand provides some mitigation of climate impacts as there will not be the additional climate impacts involved in the production of a new vehicle. The vehicles are also the same age as those being currently rented, so there will be no worsening of performance with regards carbon or air pollution emissions. The fuel supply at council depots is diesel which has made investigating the potential for using petrol RCVs impractical.
24. The service will seek to engage with the relevant vehicle and waste contractors to investigate any potential retrofitting options to the vehicles which could have a positive impact on environmental performance

Adam Webber, Air Quality Strategy and Policy Lead/Hinesh Metha, Assistant
Director of Climate Change
15 August 2024

LIST OF APPENDICES

Appendix 1 (exempt) – RCV cost breakdown