

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Councillor Sharon Holder, Cabinet Member for Public Realm

Date: 03/12/2024

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

Report author: Pat Cosgrave, Service Lead Street Environmental Services

Responsible Director: Bram Kainth, Executive Director for Place

SUMMARY

The report recommends that the Council authorise the waste contractor to purchase ten newly built 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 already built hand vehicles as opposed to ordering entirely new production 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 residual value from these assets which would not arise from continued vehicle hire.

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 £2,557,500, to be funded from existing budgets in the Place capital programme.

RECOMMENDATIONS

1. To instruct the waste, recycling and street cleansing contractor to procure ten diesel refuse collection vehicles on behalf of the Council, at a total one-off capital cost of £2,557,500, to be funded from existing capital budgets.

Wards Affected: All

Our Values	
Being ruthlessly financially efficient	The proposals will realise an improved financial outcome for the council by purchasing assets that will have residual value and mitigating ongoing vehicle hire costs.
Rising to the challenge of the climate and ecological emergency	By purchasing already built 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 10 diesel refuse collection vehicles in this report is in line with that expectation.

There is a budget of £3.511m in the existing Place capital programme set aside for the purchase of waste and street cleansing vehicles (included in the Quarter 2 capital monitoring report). This budget is available to fund the proposed £2.557m acquisition (leaving a balance of £0.953m, of which £0.860m has already been separately approved for the purchase of 5 street cleansing 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 November 2024.
Verified by James Newman, AD Finance 19 November 2024*

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.

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Proposals and Analysis of Options

1. With regard to funding the required vehicles to deliver the services, 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. Section 17 of the contract specification state that 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 conducting 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 implement 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 ten diesel RCVs as an interim measure to replace ten hired RCVs. The advantage of doing this is that it will immediately begin to defray vehicle hire costs, they will be more immediately available, and there are no additional emissions impacts as the vehicles have already been produced.
9. The existing waste fleet includes 36 RCVs and is reliant on a high level of vehicle hire to ensure flexibility over the medium term. However, the purchase of ten additional local authority asset vehicles presents an opportunity for reducing costs while maintaining a high level of flexibility.
10. The costs of the vehicles will be £249,750 each, with an additional £6,000 per vehicle to fit 360-degree cameras, bin weighing equipment and other vehicle enhancements, a total of £2,557,500 (£255,750 per vehicle). The proposed vehicles would be registered in 2024, 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 60 months after purchase. However, the benefit of the vehicles being authority owned assets is that they will retain potentially significant 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 2024 registered diesel RCVs, that could potentially be replaced in 2030 or later, 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 an increased residual value realised from disposing of the recommended vehicles more quickly.

Options analysis

13. 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 as the required vehicles to deliver the services would have to be hired, with the contractor operating an older overall fleet and unable to obtain any residual value from the vehicles in the future.

14. Option 2 - To approve the capital requirement for ten ready built diesel RCVs for the reasons set out in sections 8 - 12 above. This is the recommended option.
15. 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.
16. Officers will continue to look for opportunities to purchase suitable diesel vehicles to replace shorter terms hires to enable further savings, providing this does not compromise the council's move to greener fleet.

Reasons for Decision

17. 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

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

Risk Management Implications

19. 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.
20. There is a significant financial risk that the value of the vehicles will fall significantly faster than identified here due to the continuing drive to e-vehicles. This risk must be accepted albeit with accounting safeguards put in place.
21. There is a reputational risk that the purchase of second-hand diesel vehicles is viewed by residents and local press as an example of the council's lack of commitment to the environment. To attempt to alleviate this risk it is advised that a suitable communication strategy is developed with corporate communications.

Jules Binney, Risk and Assurance Manager, 19th November 2024

Climate and Ecological Emergency Implications

22. The proposed vehicles are a temporary measure whilst the service area carries out feasibility work on the infrastructure required to move towards a carbon neutral fleet.
23. Whilst the vehicles being purchased are diesel powered, the fact that they have already been built provides some minor mitigation of climate impacts as there will not be the additional climate impacts involved in the production of a newly ordered vehicle. The vehicles are also newer than those being currently hired, so should be better performing 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

*Verified by **Adam Webber**, Air Quality Strategy and Policy Lead
20th November 2024*

LIST OF APPENDICES

None