

Report To: STRATEGIC CAPITAL PANEL

Date: 14 March 2016

Reporting Officer: Ian Saxon Assistant Executive Director for Environmental Services

Subject: REPLACEMENT OF REFUSE COLLECTION FLEET

Report Summary: Waste Services currently delivers its service to a growing population as well as requiring a change in operational delivery due to the need to improve recycling. The Waste Service currently operates a fleet of 31 refuse collection vehicles to deliver its services. This fleet is broken down into two age ranges, those being 22 vehicles purchased in 2009 currently aged 6 years and 9 vehicle purchased 2012 now aged 3.5 years. The optimum operational life expectancy for a refuse vehicle is 8 years (with an interim refurb program at 6 years). This report is to put in place the authorisation to replace the 22 vehicles purchased in 2009, which will be due for replacement in January 2017. In order for the Council to maintain its service delivery and continue to increase its recycling rates to reduce landfill use and generate savings via a reduced waste levy it is essential that this fleet is not allowed to operate as a front line fleet passed the 8 years optimum life.

Due to the specialist nature of these vehicles, the procurement process and the manufacturers build times (currently 6-9 months). It is essential that work on replacing the fleet must begin immediately, to ensure orders can be placed as early into 2016 as possible to ensure delivery for 2017.

Based on previous build prices with an estimated inflationary increase in manufacturing costs it is anticipated that the purchase price will be approximately £3,059,700.

Recommendations:

1. Approval is sought form the Strategic Capital Panel to purchase the Refuse Collection vehicles, using the best value funding option, Option 2, via Prudential Borrowing, use of reserves and residual values.
2. That the new borrowing/hire costs are met by Waste Service revenue budget over the 8 year period via vehicle rentals issued through Transport Services, charging as outlined in Option 1 and any saving that materialises by funding using Option 2 is added to the Vehicle Replacement Reserve.

Links to Community Strategy: The purchase of these vehicles will enable Environmental Services to continue to provide its refuse collection to the growing citizens and businesses of the borough for the next 8 years up to 2025 years, with savings accruing to the service area / Council.

Policy Implications: This report supports the Council policy and statutory duty to ensure the Borough has a waste collection service for its

residents.

Financial Implications:
(Authorised by the Section 151 Officer)

An affordability evaluation has been undertaken to ensure that Environmental Services can afford the replacement of the 22 Refuse Collection vehicles. It is proposed that the purchase of these vehicles is funded via Prudential Borrowing, use of reserves and vehicle residual values financed over a period of 8 years.

The funding options available to the Council are detailed below:

	Option 1- Replace All Fully fund via Prudential Borrowing	Option 2- Replace All Part fund Prudential Borrowing, Use of Reserve and Vehicle Residual Values
Purchase Price	£3,059,700	£3,059,700
Less: Use of Reserve	0	£420,277
Less: Vehicle Residual Values (Estimated)	0	£119,240
Subtotal	£3,059,700	£2,520,183
Interest	£306,259	£252,256
Cost to the Council	£3,365,959	£2,772,439
Annual rental cost	£876,039	£801,849

The best value funding option is Option 2 which includes a contribution from the Vehicle Replacement Reserve of £420,277 and £119,240 vehicle residual values.

The estimated annual rental cost to Environmental Services is £876,039. This returns an annual saving of £49,619 to the directorate and an overall saving of £396,952 over the 8 years of the life of the vehicles, and provides an annual contribution for future vehicle replacements of £74,190 to the reserve; this will enable the Council to repeat Option 2 in 8 years time.

All costs will be funded from existing revenue budgets within Environmental Service and will assist with the achievement of savings.

This approach of utilising different options for both funding and recharging provides the most effective and cost efficient solution for the Council.

Legal Implications:
(Authorised by the Borough Solicitor)

The value of the proposed procurement exceeds the OJEU threshold. Accordingly a competitive procurement will be required involving either a tender exercise or a mini-competition under an authorised framework in accordance with the Public Contracts Regulations 2015. This report is premised upon the fact that the service have in place the most cost efficient and effective working arrangements.

Governance Arrangements:

All procurement activities undertaken as a result of this report will be done in accordance with the Council's financial standing orders in line with public procurement regulations.

Risk Management:

Set out in the report - see section 6

Access to Information:

The background papers can be obtained from the author of the report, by Alan Jackson, Head of Environmental Services (Highways and Transport)



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1. INTRODUCTION AND SUMMARY

- 1.1 The Council operates a complex and varied fleet of refuse collection vehicles to enable it to collect domestic, commercial and recyclable waste from the citizens and businesses of the borough. The refuse collection fleet is currently made up of 31 vehicles purchased via prudential borrowing. 22 vehicles were purchased in 2009 and 9 vehicles were purchased in 2012.
- 1.2 The vehicles purchased in 2009 are now due replacement 2017. Due to tender process times and extensive manufacturer build times work needs to commence on the vehicles replacement program now in order for orders to be placed in time for delivery 2017.
- 1.3 The profile of the refuse collection fleet is as below in **Table 1**.

Table 1 – Refuse Collection Fleet Profile

No Vehicles	Age (years)	Replacement date	Description
18	6	2017	Dennis Elite 26 Tonne Refuse Collection Vehicles
2	6	2017	Scania 26 Tonne Trade Waste Collection Vehicles
2	6	2017	Daf 12 Tonne Rural Refuse Collection vehicles
9	3.5	2020	Dennis Elite 26 Tonne Refuse Collection Vehicles

Fleet Options

- 1.4 There are various configurations of fleet that have been considered in order to determine the optimum fleet profile to deliver the service and the above configuration of vehicles has proved to be the best option, being the most effective and operationally viable.
- 1.5 Prior to any purchases lengthy specification meetings are held with Waste Service to discuss the best product available and to ensure any purchases deliver the best operational outcome for the Council and the service.
- 1.6 Other options considered and rejected are detailed below;

a) Use of Larger Vehicles

The introduction a larger vehicle with higher payload capacity with a view to reducing fleet size and number of drivers required.

The current large vehicle option is a 6 x 2 with mid lift axle. This vehicle is in essence a 26 ton vehicle with a payload of 11,500kg it has 3 x axles one to steer one to drive and an additional one to carry part of the load. The direct larger replacement would be an 8 x 4 32 ton vehicle with a payload of 18,000kg. This vehicle has two front axles for steering and two rear axles to drive and carry the load.

In 1995 the Council procured two of these vehicles on fleet for trial purposes. Unfortunately, this turned out to be a costly unbeneficial exercise, due to the vehicles not being used for a large portion of time and the vehicles were disposed of. This was due to the fact that they were not compatible with the Borough's highway network, mainly narrow streets and housing estates, as the turning circle on these large vehicles is poor and subsequently could not access a large proportion of the properties.

b) Use of Smaller Vehicles

The Council could also consider the use of smaller vehicles. However, this would require additional vehicles to collect the volume of waste generated, as well as the need to employ additional drivers and loaders.

The Council has two 12 ton vehicles on fleet and these are the largest vehicles available providing the highest payload with the ability to access the rural areas. Vehicles any larger cannot access the required rural properties due to the terrain and restrictions on access (small country paths etc).

- 1.7 Total number of vehicles employed within this service area is 31. The 22 vehicles with a 2017 replacement date are the vehicles covered within this report.
- 1.8 Waste Services provides a collection service to residents and business users utilising the above vehicles, currently over 31 operational rounds, (given that one round equals one vehicle). Each vehicle is designed to collect domestic and recyclable waste, the rounds are
 - 27 x Domestic waste and recycling collection rounds (Black/Green/Blue and Brown bin)
 - 2 x Commercial waste collection rounds (Trade)
 - 2 x Rural domestic waste collection rounds (Black/Green/Blue and Brown bin)
- 1.9 The Council has introduced its new bin swap initiative to increase its recycling rates and reduce landfill use this is expected to generate savings of approximately £3 million per annum. In order to maintain the impetus of this programme of change it is essential that the Waste Service fleet maintains its high performance levels in fleet availability and reliability.
- 1.10 The original fleet size of 31 vehicles provided for the operation of 29 rounds. The two additional vehicles provided immediate cover for safety and statutory maintenance and repair operations.
- 1.11 For example a refuse vehicle is out of service for 1 week of every year for statutory maintenance MOT, test preparation, tachograph certification and LOLER (Lifting Operations and Lifting Equipment Regulations) certification this equates to the loss of 1 vehicle for 31 weeks of every year when taken as a fleet total, without a small amount of spare capacity the refuse collection operation will encounter difficulty in maintaining its service resulting in missed bins/rounds due to vehicles being off the road. Although the majority of preventive maintenance and repairs are carried out during non-operational hours, it is inevitable that this work will spill over into normal working hours, therefore impacting on Waste Services.
- 1.12 Due to operational reasons and the need to increase recycling opportunities; the Waste Services operation increased the total number of rounds undertaken to 31, removing this support element.
- 1.13 In order to support this, it is the intention for 3 of the 22 vehicles to be retained as maintenance support vehicles for periods of downtime due to servicing, repairs and MOT's etc., as the fleet is currently without any provision in this area. This is in line with industry standards.
- 1.14 In addition the cost of replacement hire vehicles is in the region of £1,000 per week. However, there is a major reduction in the availability of hire vehicles across the industry. Securing a replacement vehicle when required takes an average of three days with a minimum three day hire; and each hired vehicle requires a three hour pre use inspection mandatory by law before it can be put into service. (Very frequently these hired vehicles fail the pre use inspection).
- 1.15 During 2015/16 hire costs for one replacement vehicle alone have been in excess of £40,000, therefore in comparison to £18,908 per annum for retaining 3 vehicles provides the most cost effective and efficient option.
- 1.16 It is the intention that the 3 retained vehicles will be similarly replaced in 3 years time with the next programmed fleet replacements.

- 1.17 New vehicles of a specialist nature inevitably go through an intense running in phase, with replacing such a large proportion of the fleet then it would be prudent to ensure adequate cover is available to absorb the impacts of any teething problems that might occur.
- 1.18 The cost of the upkeep and maintenance of these three retained vehicles for maintenance support is included in the base rentals to the Waste Services.

2. PROCUREMENT METHOD

- 2.1 It is the intention to procure the 22 vehicles via a tendering exercise through either an approved framework let by the Yorkshire Purchasing Organisation or the Council's own OJEU Tender exercise and finance these items over 8 years.
- 2.2 The previous price paid for the 9 refuse vehicles replaced in 2012 was £135,700 each. A 5% uplift has been added to this price to formulate the financial information in **Table 2** below in the financial summary section.
- 2.3 It should be noted that the purchase prices for the above option are those prices obtained by using the AGMA fleet framework, which has now expired with no current replacement in place.

3. FINANCIAL SUMMARY

- 3.1 This procurement exercise will assist Waste Services to deliver its recycling savings by ensuring it continues to operate a modern up to date fleet.
- 3.2 The costs of replacing the 22 vehicles are detailed in **Table 2** below.

Table 2 - Purchase Costs

No. req.	Description	Category	Est Purchase Price	Borrowing Rate @ 2.17%	Purchase + Borrowing
2	Daf LF45 12Ton Geesink	Domestic and recycling	£210,000	£21,020	£231,020
18	Dennis 26ton 6x2 Elite Phoenix	Domestic and recycling	£2,564,730	£256,715	£2,821,445
2	Scania 26Ton Geesink	Commercial (Trade)	£284,970	£28,524	£313,494
Totals			£3,059,700	£306,259	£3,365,959

- 3.3 The total cost associated with the 3 maintenance support vehicles has been calculated at £18,908 per annum for a period of three years. This increase has been included in the base rentals of the 22 new vehicles which equates to a cost of £859 per annum per vehicle.
- 3.4 The estimated resale value of the current 19 vehicles to be disposed of is £119,240 this value is an estimate based on the condition of the 19 vehicles. This figure will go to offset the borrowing. However the re-sale price cannot be guaranteed due to re-sale being governed by external market forces and demand. The values are determined by the amount paid and the likely auction price (there is no 'book' value for these types of vehicles) based on the age and expected condition of the vehicle. These are therefore only indicative figures as values can fluctuate significantly, depending on the state of the second hand vehicle market etc.
- 3.5 The estimated value of £119,240 will need to be provided from reserves until the sale of the vehicles is realised. Upon the sale of the vehicles the receipt will transferred back to the reserves.

- 3.6 Based on these costs there are two funding options. Option 1 Fully fund via Prudential Borrowing and Option 2 Fund via Prudential Borrowing offset by Use of Transport Reserves and Residual Values of the 19 vehicles to be disposed of, as detailed in **Table 3** below.

Table 3 Funding Options

	Option 1- Replace All Fully fund via Prudential Borrowing	Option 2- Replace All Part fund Prudential Borrowing, Use of Reserve and Vehicle Residual Values
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- 3.7 The proposed funding option is Option 2, which provides the most cost effective purchasing option for the Council.
- 3.8 To ensure provision is made to contribute to the vehicle replacement reserve which will assist in funding future fleet purchases it is proposed that services will be charged Option 1 (making a saving of £925,658 - £876,039 = £49,619); as outlined in **Table 4** below and the difference paid into the Vehicle Replacement Reserve.

Table 4 – Service Recharge

		Recharge (Annual rental with contribution to reserves)					
No.	Description	Current Annual Cost to Service	Proposed Actual cost to the Council	Variation/ (Saving) to the Council	Variation/ (Saving) to the Service	Contribution to Reserve	Proposed Annual Cost to Service
2	Daf LF45 12Ton Geesink	£62,825	£ 57,971	(£4,854)	£1,740	(£6,594)	£64,565
18	Dennis 26ton 6x2 Elite Phoenix	£776,679	£669,525	(£107,154)	(£46,318)	(£60,836)	£730,361
2	Scania 26Ton Geesink	£86,154	£74,353	(£11,801)	(£5,041)	(£6,760)	£81,113
	Totals	£925,658	£801,849	(£123,809)	(£49,619)	(£74,190)	£876,039

4. AFFORDABILITY/FINANCIAL IMPACT

- 4.1 Based on the information provided, it has been confirmed that the budgets held by the Head of Waste Services, is able to afford the revenue costs in respect the rental charges over the 8 year rental period for the vehicles required as indicated in Table 4 above, including an annual saving of £49,620 on current budgets.

5. RISK MANAGEMENT

The main risks associated with this decision are:

- 5.1 The above recommendations are in line with the current service review being undertaken by Environmental Services, which will help increase recycling rates utilising existing resources. In the future, further reviews may be necessary which may require the release the potential of these resources and in such cases, should demand be different, there is still options to dispose of one or more of the vehicles before the end of the borrowing period. In this event, vehicles returned by the service will be sold (initially being offered to other AGMA authorities, who now operate with a similar specification of vehicle), with the receipts of the sale going to offset the outstanding borrowing. The short fall (if any); will then be recharged to the Service returning the vehicle.
- 5.2 Residual values may not be realised as expected, due to market conditions at the time of sale.
- 5.3 If authorisation to replace the vehicles contained within this report is not given, then the affected service will struggle to deliver its services. The use of short / medium term hire vehicles will increase and become unsustainable, and the escalating maintenance costs of the 22 vehicles and consequential increased downtime would seriously impact on Waste Services capability to deliver its services and adversely impact on the current Waste Services refuse and recycling initiatives.
- 5.4 Waste Services is currently conducting a review of its commercial waste with a view to reducing the two allocated vehicles down to one. If this transpires as a viable change then one less vehicle will be required. This review will be completed in advance of the completion of any tendering process and before any vehicles are ordered. Any reduction can be taken into account before any order for vehicles is placed.

6. RECOMMENDATION

- 6.1 As set out at the front of the report