



REPORT OF:	STRATEGIC HEAD OF NEIGHBOURHOOD OPERATIONS
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TO:	EXECUTIVE
DATE:	29 NOVEMBER 2018
EXECUTIVE MEMBER:	COUNCILLOR A. HORWOOD

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	ALL

SUBJECT:	REPLACEMENT OF THE COUNCIL'S FLEET OF DOMESTIC REFUSE COLLECTION VEHICLES
<p>RECOMMENDATIONS:</p> <p>(i) That the Executive recognise that the Council's current fleet of domestic refuse collection vehicles is approaching the end of its economical service life.</p> <p>(ii) That the Council purchase new vehicles over a period of three financial years, concluding in 2021/22, supported by the refurbishment of vehicles from the current fleet (Option 2).</p> <p>(iii) That, in pursuance of recommendation (ii), financial provision be made as follows:</p> <ul style="list-style-type: none"> • Include within the Council's capital programme planning the sum total of £600k in financial year 2019/20 to fund the initial purchase of three new vehicles. • Include within the Council's capital programme planning the sum total of £120k in financial years 2019/20, 2020/21 and 2021/22 to fund a refurbishment programme of vehicles from the current fleet. • Include within the Council's capital programme planning the sum total of £1.5 million in financial years 2020/21 and 2021/22 (£3 million total across these two financial years) to fund the purchase of up to fourteen new vehicles. <p>(iv) That the Strategic Head of Neighbourhood Operations be authorised, in consultation with the Leader of the Council and Executive Member for Neighbourhood Services, to make revisions to the replacement options and approach within the agreed budget as required.</p>	

REASONS FOR RECOMMENDATIONS:

To continue to deliver a cost effective, robust and legally compliant domestic refuse collection service for the borough's residents.

EXECUTIVE SUMMARY:

The Council operates a fleet of refuse collection vehicles (RCVs) that provide the statutory collection of waste and recycling from the borough's domestic properties.

The fleet of vehicles providing this service are close to the end of their economical service life. In the last year the fleet has been afflicted by a variety of maintenance issues and a concurrent reduction in its availability; a significant increase in maintenance costs has resulted, as has the need to acquire vehicles on temporary spot-hire arrangements in order to deliver the service. As the fleet continues to age further deterioration is inevitable.

The acquisition of a new fleet to undertake the Council's statutory waste collection duty is therefore required to safeguard continued efficient service delivery.

An options appraisal (see annexe 1) was recently undertaken to ascertain the most cost effective option for replacing the fleet. The upshot of this exercise was that:

1. Alternatively fuelled vehicles are not currently commercially viable;
2. Refurbishing the entire fleet was uneconomical; and,
3. Capital purchase and in-house maintenance is the most cost effective option for replacing and continued operation of the fleet.

This report consequently recommends that the Council should replace its fleet of RCVs through capital purchase over a period of three years, with this supported by the refurbishment of vehicles from the current fleet (Option 2).

This approach will ensure that the Council continues to deliver this statutory service in a cost effective and legally compliant manner.

Executive has the authority to approve recommendations (i), (ii) and (iv). Full Council is required to approve recommendation (iii).

STATUTORY POWERS

1. The Council is the statutory Waste Collection Authority (WCA) for the borough. The Environmental Protection Act (1990) created a statutory duty for WCAs to arrange for the collection of household waste within their area.
2. Surrey County Council (SCC) is the statutory Waste Disposal Authority (WDA) and is responsible for disposal of the waste that Reigate and Banstead Borough Council (RBBC) collects at the kerbside.

3. Section 48 of the Environmental Protection Act (1990) makes provision for collection authorities to retain waste for the purpose of recycling. Since the Act came into effect the recycling obligations of authorities have increased significantly.
4. The Waste Framework Directive (2008) introduced a target for 50% of waste to be recycled by 2020. If this target is missed there are provisions within the Localism Act (2011) for fines levied by the European Union (EU) to be handed down to local authorities.
5. Since January 2015 the Waste Framework Directive has required WCAs to provide separate collection of paper, plastics, metal and glass in order to facilitate greater levels of recycling where this is technically, environmentally and economically practicable (TEEP).
6. The Council's refuse and recycling service is fully compliant with the Waste Framework Directive and the current fleet is configured accordingly.
7. Revisions to the Waste Framework Directive were recently ratified by the European Council. The revisions include more stringent municipal recycling targets, specific targets on the recycling of product packaging, new separate collection rules and mandatory separate bio-waste collections, amongst others.
8. The European Union (Withdrawal) Act (2018) will repeal the European Communities Act (1972) – the principal instrument through which EU law and regulations are incorporated into national legislation – on March 29 2019, the day that the United Kingdom (UK) will leave the EU. The Act reimports (or 'onshores') into UK domestic law as 'retained EU law' most EU derived laws that applied in the UK immediately before the day of exit.
9. All EU waste legislation will therefore remain in force in the UK following EU withdrawal. The Government will be able to repeal or amend this law after March 29 2019 unless the UK seeks membership of the European Economic Area (EEA) or otherwise makes specific commitments to apply such law as part of negotiating new trade arrangements with the EU.

BACKGROUND

10. The Council operates a fleet of seventeen RCVs that collect recycling and refuse from the borough's residential properties. A separate fleet delivers the Council's Garden Waste and commercial waste services.
11. The Council operates this as an in-house service, with vehicle maintenance also taking place in-house.
12. The vehicles have entered their seventh year of operation and are fast approaching the end of their economical service life. Over the last year and a half the fleet has been afflicted by a variety of maintenance issues primarily associated with its advancing age. As a result, maintenance costs have increased significantly.
13. The increase in maintenance issues has also resulted in a decrease in fleet availability as such issues have become more complex and difficult to resolve. In order to continue to deliver the service the Council has been required to temporarily acquire vehicles on expensive short-term hire arrangements.
14. The fleet of vehicles operating the service therefore require imminent replacement.

15. On 13 September 2018 Executive approved the roll-out of the Council's recycling service to circa 4,000 flats that hitherto have not received a full recycling service. This service expansion is significant and is fundamentally predicated upon the Council operating a fully functional and robust fleet of RCVs.
16. An options appraisal was recently undertaken to ascertain the most cost effective option for replacing the fleet and has been utilised in drafting this report.

KEY INFORMATION

The current fleet and scope of replacement

17. This paper is concerned with the replacement of the fleet of vehicles that collects refuse from the borough's residential properties; the Council's existing capital programme for fleet replacement includes provision for the replacement of vehicles servicing garden waste and commercial waste customers.
18. The fleet is comprised of the following vehicles:

Vehicle type	Quantity
26 tonne Twinpack	14
15 tonne Twinpack	3

19. A like for like replacement of these vehicles is required and will ensure a resilient, robust and legally compliant refuse collection service for the borough's residents.

Approach to replacement

20. This report recommends that the Council should replace elements of its fleet over a period of three years, with this replacement programme being supported by the refurbishment of vehicles from the existing fleet in order to extend their service life.
21. Refurbished vehicles have a limited lifespan which is likely to be no longer than 2 years. Thus, the refurbishment of vehicles does not remove the need to ultimately replace such vehicles but instead delays the date of replacement.
22. To date the Council has not operated refurbished vehicles in its fleet, however Members have expressed a strong interest in refurbishment in order to maximise the life of those vehicles from the current fleet deemed viable for continued operation following refurbishment.
23. This programme of replacement and refurbishment will take place across financial years 2019/20-2021/22, the upshot of which is that by the end of the programme the current fleet will have largely been replaced.
24. The chief advantage of this staggered approach to replacement is that it spreads the cost of replacement over three financial years and similarly avoids having vehicle warranties expiring simultaneously. The three year time frame also grants the Council the ability to be flexible in the specification of the vehicles it acquires.

25. It is intended that future replacement will likewise take place in a staggered manner, with the approach suggested at this juncture supporting a move towards the rolling replacement of three vehicles per year. The advantage of rolling replacement is that it avoids the significant upfront cost of replacing the entire fleet and similarly avoids the warranties of multiple vehicles expiring simultaneously.
26. The condition of vehicles in the current fleet varies significantly, where some vehicles are closer to the end of their economical service life than others. It is therefore proposed that in the first year of the replacement programme (2019/20) the Council should purchase three new RCVs to relieve pressure on the current fleet's availability and, upon delivery of these vehicles, commence the aforementioned refurbishment programme
27. It will take at least six months from placing an order for new vehicles to be delivered. Preparations for undertaking a procurement exercise for purchasing vehicles will take approximately three months, meaning that the Council will be in a position to make its first order for new vehicles in April 2019, with delivery taking place in circa October 2019.
28. £120k has been identified as being necessary to fund a refurbishment programme each year for three consecutive years, starting in financial year 2019/20. As the condition of the vehicles in the current fleet varies greatly, it is difficult to accurately quantify how many vehicles can be refurbished for this sum as the cost is dependent on the condition of the vehicle. It is expected, however, that £120k is sufficient to refurbish at least 2 and possibly 3 vehicles.
29. A further £1.5 million is requested in years two (2020/21) and three (2021/22) to fund the purchase of up to fourteen remaining vehicles. The actual number of vehicles requiring replacement is partly dependant on the effectiveness of the refurbishment programme.
30. The timescales for vehicle purchases in years 2020/21 and 2021/22 are not currently known, though one year is expected to be sufficient to make preparations for a procurement exercise and to receive delivery of the new vehicles.
31. The table below provides a summary of the capital expenditure associated with the replacement-refurbishment programme:

	2019/20	2020/21	2021/22
Replacement	Three vehicles Total: £600k	Up to Seven vehicles Total: £1.5 million	Up to Seven vehicles Total: £1.5 million
Refurbishment	Three vehicles Total: £120k	Total: £120k	Total: £120k

Refurbishment

32. An RCV remanufacturer was recently commissioned to provide a quotation to refurbish an indicative vehicle from the Council's fleet. The quotation covers work required to the vehicles' hydraulic lifting systems and electronics, as well as bodywork repairs.

33. The quotation received from the remanufacturer shows that to refurbish each vehicle will cost a minimum of £36,000 (£50,000 being the maximum likely to be spent on any single vehicle refurbishment).
34. It is important to note that this is an indicative sum that was arrived at following a limited inspection. The condition of each vehicle within the current fleet varies greatly and many issues – such as chassis corrosion – are only identifiable following dismantling and further examination. Chassis repairs can be very expensive, particularly if there are underlying issues with rust and corrosion. Other repairs, such as those to the vehicles' internal compartments, are not covered by the quotation and, depending on the vehicles' condition, could prove to be expensive.
35. The latter therefore makes it difficult to accurately gauge and quantify the cost for refurbishing each vehicle; the refurbishment cost per vehicle could therefore be in excess of £36,000 (estimated to be up to £50,000) and may also include other works required that are not covered by the remanufacturer's quote.
36. As noted, it is unlikely that a refurbished vehicle will be able to remain in service for more than 2 years and will only be in warranty for the first year of service.
37. Refurbishment will also not include any mechanical repairs which the Council will continue to be required to undertake. Such costs will likely increase as the vehicles continue to age and mechanical faults become more common and expensive to repair. Moreover, once refurbishment has been completed serious mechanical failures (such as engine failure) could still occur, therefore risking the loss of the capital sum invested in refurbishment.
38. In addition, whilst vehicles are out of service with complex mechanical faults the Council will be required to acquire replacements to meet operational needs on short-term spot hire arrangements; this currently costs circa £1,070 per week per vehicle.
39. It will take approximately six weeks for a vehicle to be refurbished and returned to the Council. Owing to operational requirements the service is unable to release more than one vehicle at any one time. Whilst each vehicle is being refurbished the Council will be required to acquire a temporary replacement in order to meet operational demands. The spot hiring of vehicles add approximately £6,500 to the cost of each refurbishment.
40. It is also highly likely that the condition of the vehicles awaiting refurbishment but still in operation will continue to deteriorate, with urgent, unplanned maintenance consequently being required as well as the concurrent need to acquire vehicles to meet such gaps in operational capacity.
41. Refurbishment will therefore cost – at a minimum – circa £42,000 per vehicle. This figure includes the cost of refurbishment and the need to hire vehicles where necessary.
42. The performance of refurbished vehicles will be rigorously monitored, with such performance informing the decisions around refurbishing subsequent vehicles.
43. Those vehicles deemed not viable for refurbishment – based on the cost and/or condition – will not be refurbished.
44. There is therefore a degree of uncertainty and risk associated with the refurbishment of vehicles from the current fleet, though it is expected that the identified figure of £120k is sufficient to refurbish at least two vehicles per year.

45. The latter notwithstanding, the proposed approach will grant the Council flexibility in replacing its fleet and will ensure that the refuse and recycling service it delivers remains cost effective, robust and fully legally compliant. Option 2 is therefore recommended on this basis.

Alternative fuels

46. As a responsible WCA it is incumbent upon the Council to explore the possibility of operating RCVs that use alternative fuels in order to reduce emissions and help protect the environment and the borough's air quality.
47. An options appraisal was recently undertaken to ascertain the most cost effective option for replacing the fleet – this exercise also considered whether alternatively fuelled vehicles are commercially viable.
48. RCVs are heavy, operate on a stop-start cycle, and likewise lift heavy bins. As such, they require significant amounts of energy to operate which has traditionally come from a diesel engine.
49. Diesel has received negative media and governmental attention in recent years due in large part to the emissions scandal which implicated a number of global vehicle manufacturers.
50. The Council's current fleet of RCVs are diesel powered and adhere to Euro V emission standards. Since the Council took delivery of its current fleet, Euro V has been superseded by Euro VI. Euro VI engines are significantly cleaner than Euro V, with the move to Euro VI resulting in large reductions in emissions of harmful particulates and a more robust testing regime to ensure compliance.
51. There are three alternatives to diesel engines which have been explored: (1) Fully electric; (2) compressed natural gas (CNG); and (3) hybrid vehicles (combining diesel and electric).
52. Notwithstanding the fact that the market for alternatively fuelled RCVs has developed in recent years alternative fuel options are at present not commercially viable in comparison to modern diesel engines. Indeed, the alternatives to diesel engines are significantly more expensive, both in the costs of acquiring the vehicles but also in installing the necessary infrastructure required for their operation.
53. Thus, whilst alternatively fuelled vehicles are not commercially viable at present, technological advance means that in subsequent years this position may well be different and will therefore be kept under close consideration.

OPTIONS

54. In replacing its fleet the options available to the Council are as follows:
55. **Option 1:** outright capital purchase and in-house maintenance of a new fleet, with the capital expenditure incurred in one financial year (2019/20).
56. **Option 2:** outright capital purchase and in-house maintenance supported by the refurbishment of existing vehicles deemed viable to do so, with the capital expenditure incurred across financial years 2019/20, 2020/21 and 2021/22 (recommended).

57. **Option 3:** contract hire of a new fleet of vehicles, with maintenance undertaken in-house.
58. **Option 4:** contract hire of a new fleet of vehicles, with outsourced maintenance.
59. The recently undertaken options appraisal found that contract hire (options 3 and 4) is significantly more expensive than capital purchase and is therefore not recommended.

LEGAL IMPLICATIONS

60. The legal implications of this report mainly relate to procurement.
61. The procurement of the new fleet will take place through the NEPO Framework (Lot 2). The Council will work alongside an external organisation – The Procurement Partnership (TPPL) – who will run a Further Competition (mini) on the Council's behalf. The NEPO framework makes available a wide range of heavy goods and specialist vehicles for competitive prices and therefore offers the greatest scope for achieving cost efficiencies.
62. In order to achieve best value for money three Further Competitions will be run which correspond to the three tranche approach to replacement. This will also grant the Council flexibility in the specification of the vehicles it acquires.
63. Each procurement tranche will take approximately 3 months to complete, with the delivery of vehicles taking place approximately 6 months thereafter.
64. It will be necessary to procure a specialist supplier to undertake refurbishment; there are a limited number of contractors capable of undertaking such work.
65. It is a matter for the Council to decide how it complies with its statutory duty with regard to waste collection. All the options in this report will allow the Council to meet its statutory duty.

FINANCIAL IMPLICATIONS

66. It is important to note that the exact costs for acquiring a new fleet of domestic RCVs – for both capital purchase and contract hire – will only be known following the completion of a competitive procurement exercise. As such, it is only possible at this stage to identify indicative – though nevertheless robust – costs for replacing the fleet.
67. As noted above, an options appraisal was recently undertaken to ascertain the most cost effective option for replacing and operating a new fleet of domestic RCVs. The options appraisal found that the capital purchase and in-house maintenance was the most cost effective option for acquiring and maintaining a new fleet of vehicles whilst simultaneously ensuring a resilient, robust and legally compliant refuse and recycling collection service for the borough's residents.
68. It should be noted that should prices for RCVs increase in light of possible market fluctuations, such increases will be commensurate for both options of acquisition (outright purchase and contract hire) and does not therefore change the relative cost attractiveness of outright purchase.

Option 1

69. The estimated capital cost to acquire a new fleet of the required specification and quantity as detailed above is in the region of £3.2 – £3.6 million.
70. Depreciation is to zero over a period of six years. The Council will fund the purchase of the vehicles from its reserves.
71. As the fleet is a like for like replacement, the current revenue budget required to operate and service the vehicles remains unchanged under option 1. As such, there are no revenue budget implications resulting from option 1.

Option 2 (recommended)

72. As with option 1, the current estimated capital cost to acquire a new fleet is in the region of £3.2 – £3.6 million.
73. The Council will fund the purchase of the vehicles from its reserves.
74. However, and as noted above, acquisition under this option will be spread across three financial years, with three new vehicles acquired in 2019/20 and up to seven in both 2020/21 and 2021/22.
75. The above therefore requires £600k in 2019/20 and £1.5 million in both 2020/21 and 2021/22.
76. The spreading of expenditure across three years increases the possibility of exposure to price fluctuations in the RCV market, though the impact of this is difficult to quantify with certainty at present. This therefore shows the importance of a budgeted contingency.
77. In order to acquire vehicles over three years option 2 also requires the refurbishment of some vehicles deemed viable for refurbishment. The capital sum of £120k for years 2019/20-2021/22 is required in order to fund this refurbishment.
78. Refurbishment cannot be funded from the service's revenue budget.
79. As refurbishment does not include mechanical works and refurbished vehicles are older and subject to increased risk of breakdown, refurbished vehicles will cost more to maintain than their newer equivalents. This will therefore have revenue budget implications, though this is difficult to quantify with certainty. Whilst this will be kept under review, it is not recommended that the service's revenue budget should be increased to reflect this.
80. Moreover, and as noted above, refurbishment will require the Council to acquire vehicles on temporary spot-hire arrangements to cover the periods where the vehicles are away and are being refurbished. This will have revenue budget implication but it is not recommended that the service's revenue budget should be increased to reflect this.

Option 3

81. The recently undertaken options appraisal found that contract hire with in-house maintenance will cost in the region of £4 million over the six year life of the fleet. This option is more expensive than outright capital purchase and is therefore not recommended.
82. This option would have revenue budget implications, with the total cost spread over six years.

Option 4

83. The recently undertaken options appraisal found that contract hire with outsourced maintenance will cost in the region of £4.3 million over the six year life of the fleet. This option is more expensive than outright capital purchase and is therefore not recommended.
84. This option would have revenue budget implications, with the total cost spread over six years.

Recycling credits

85. As the WCA for the borough, the Council currently receives recycling credits from SCC in its capacity as the waste disposal authority. SCC has recently proposed the abolition of recycling credits and the introduction of a new formula to distribute funding to the WCAs in Surrey. Recycling credits are payments made by the WDA to the WCA in order to incentivise increased recycling, particularly where without such payments collection would not be commercially viable.
86. Whilst the Council has clarity on the budgetary impacts of such changes up to 2020/21, uncertainty remains beyond this date. It is possible, therefore, that the Council's budgetary position could worsen as a result of the new funding formula.
87. Whilst it is not possible – nor indeed desirable – to alter the materials that are collected, there is possible scope for altering the way in which these materials are handled to reduce operational costs, particularly if the settlement reached with SCC after 2020/21 is injurious to the Council's financial position.
88. In this vein, the recommended approach to replacement will grant the Council significant flexibility in its approach to procurement, thereby ensuring that the configuration of the acquired vehicles is appropriately balanced against the financial settlement reached with SCC and the duties of being the borough's statutory WCA.

EQUALITIES IMPLICATIONS

89. There are no equalities implications resulting from this report.

COMMUNICATION IMPLICATIONS

90. There are no communications implications resulting from this report.

RISK MANAGEMENT CONSIDERATIONS

91. There are a number of risks associated with replacing the Council's fleet.
92. If the UK leaves the EU on 29 March 2019 without a deal the free circulation of goods between the UK and EU will cease. According to the Government's recently released technical notices on trade, this would mean that customs and excise rules would be applied to goods moving between the UK and EU, thereby resulting in import and export delays as well as an increase in costs as tariffs are applied on goods.

93. Manufacturing supply chains are tightly integrated, with the constituent components of RCVs moving between the UK and EU many times before their final assembly. This close integration of supply chains, coupled with the risk of the imposition of customs and excise rules, could therefore result in significantly increased costs for purchasing the required vehicles as well as a significant delay in their delivery to the Council.
94. To mitigate the Council will continue to monitor the situation alongside our procurement partners. The Council should be prepared to move quickly in placing orders for the new vehicles and should avoid unnecessary delay.
95. In addition, the current fleet will continue to age whilst the procurement process is undertaken. The vehicles' increasing age means that maintenance costs will continue to be high and vehicle failure is more likely. Reputational damage will be caused to the Council and resident's dissatisfaction with our waste services will be a likely consequence. This will also result in the Council being required to acquire vehicles on expensive spot hire arrangements to meet operational demands. The latter is underscored by the fact that the Council will not have taken delivery of the final tranche of vehicles until early 2020.
96. The Council's ageing fleet is also managed on the operational risk register.
97. The proposed changes to the recycling credits formula are managed on the Council's strategic risk register. The Council continues to be an active participant within the Surrey Waste Partnership – the forum comprised of Surrey's ten other WCAs and the County Council – and will be closely involved in the development of future proposals with a view to achieving an equitable financial settlement.

OTHER IMPLICATIONS

98. There are no other implications resulting from this report.

CONSULTATION

99. The Leader and Executive Member for Neighbourhood Services have been briefed during the preparation of this report.
100. There are no further consultation implications resulting from this report.

POLICY FRAMEWORK

101. Whilst the Council's Five Year Plan (2015-20) does not include a specific priority for management of waste, a key pillar of the Council's overarching vision is to deliver quality services and value for money for residents. The acquisition of a new fleet of domestic RCVs on the basis recommended by this report is conducive to the pursuit of this goal.

Background Papers: None