

Harborough District Council



Report to Council Meeting of 20th May 2024

Title:	Waste Fleet Capital Funding Allocation
Status:	Public
Key Decision:	Yes
Report Author:	Cat Hartley, Director of Communities & Wellbeing
Portfolio Holder:	Environment & Climate Change, Councillor Darren Woodiwiss
Appendices:	None

Summary

- i. Approval is sought for a gross capital programme allocation of £6.3m (£5.9m+5% contingency as per Constitution, rule E5) during 2024/25 for the purchase of a fleet of refuse, recycling and food waste collection vehicles, road sweepers, grounds maintenance and sundry vehicles. Following government grant and Council approved revenue allocations, the net capital programme allocation is £5m.
- ii. The allocation of capital funding will enable progression of further work; which will include the development of a business case and full costings. Should this be a cost effective approach for the council, then Cabinet approval will be required prior to any fleet procurement and purchase.

Recommendations

1. That Council approves a gross and net capital allocation of £6.3m and £5m respectively during 2024/25 for the purchase of a fleet of refuse, recycling and food waste collection vehicles, road sweepers, grounds maintenance and sundry vehicles.

Reasons for Recommendations

- iii. To ensure that capital funding is available prior to the further consideration for the purchase of a fleet of refuse, recycling and food waste collection vehicles, road sweepers, grounds maintenance and sundry vehicles.

1. Purpose of Report

To provide information on the Council's current Environmental Services Contract, which consists of grounds maintenance, street cleansing and waste management. In addition, seek approval for the allocation of funding from the capital budget to enable further consideration of a fleet purchase.

2. Background

- 2.1. The Council has a legal obligation to deliver a waste and recycling collection service in the District and also provides priority frontline services in the form of grounds maintenance and street cleansing. This is currently undertaken by a private company called FCC Recycling UK (FCC), through a contract. The contract includes the collection of refuse, mixed recycling, trade waste and garden waste. The Council 'outsources' all elements of the service and therefore does not own a depot or any vehicles ('the fleet') or employ any staff.
- 2.2. The contract is due to expire on the 31st March 2025, and this does not leave sufficient time to procure a new contract due to DEFRA and delayed legislation changes from central government. Therefore, officers have sought a price for a two-year contract extension.
- 2.3. FCC have recently provided a price per year of approximately £900,000 which equates to an increase of approximately 20% on the annual contract cost of £5.3m. The reason for this significant increase is that the fleet of vehicles used to provide the service are reaching end of life. They are approaching 8 years old, and some have had to be removed from service. Therefore, the vast majority of the contract extension price increase is made up of vehicle lease costs.
- 2.4. Within the £900,000 increase, approximately £800,000 per year is allocated to the lease of refuse vehicles and £100,000 per year has been allocated to replacing the aging mowers in the fleet.

3. Details

- 3.1. Given the high cost of vehicle leasing and increase to the contract price, officers have been considering more cost-effective ways of meeting the fleet requirement. Annual leasing is considered an unsustainable way forward due to the very high costs, and therefore the option of fleet purchase has been explored.
- 3.2. The exact mix of vehicles and costs is still being considered, however it is possible to reach a best estimate based on information provided by FCC and liaison with market suppliers through soft market testing. This is shown in the table below, and it is important to note that this is an estimate for the purposes of budget forecasting at this stage.

Projected vehicle requirements and cost		Table 1
Vehicle Type	Cost	
Refuse: 18t/26t/32t vehicle mix – 18 x vehicles	£4,450,000	
Food Waste: 9 x £120,000	£1,080,000	
Ride-On Mowers, Street Cleansing & sundry vehicles	£432,500	
Total	£5,962,500	
5% Contingency, as per Rule E5 of the Constitution	£298,125	
Total including Contingency	£6,260,625	

- 3.3. The costs set out above are the expected market costs; including 5% contingency. All efforts will be made to ensure that best value is achieved should we move forward with procurement. It may also be possible to achieve savings through the use of multi-purpose vehicles, and this is also being explored.
- 3.4. The costs above are based upon current market prices for diesel vehicles. Officers have explored the possibility of moving to electric vehicles; however at the current time these are three times the price and would also be unsuitable for collections within the District due to the short mileage ranges. This view is supported by the soft market testing that has been undertaken so far. Officers will however continue to explore all options to reduce emissions, through looking at all alternatives to diesel.
- 3.5. The costs set out above do not include service and maintenance costs as these are already built into the annual cost of the contract with FCC.
- 3.6. The council is required to prepare for the mandatory introduction of food waste collections from 1st April 2026 and therefore will need to place an order for the vehicles to undertake this as soon as possible. Therefore, this has been included within the table above for completeness. The Council has received capital funding of £840,000 from DEFRA towards the cost of vehicles to deliver food waste collections, and so the residual capital requirement for fleet purchase is just under £5.2m.
- 3.7. The perceived benefits of fleet purchase are as follows:

- Cost savings - a fleet of vehicles, excluding food waste vehicles, required to deliver the waste and recycling service would cost in the region of £4.5m to purchase. Based upon a maximum 7-year lifespan this equates to a capital cost of £500,000 per year. The cost of leasing is currently c£900,000 per year, so purchase of a fleet would result in an annual saving of approximately £400,000.
- Vehicle quality – the leasing of vehicles is unreliable, as we are dependant upon what is available. The purchase of a fleet would mean that we had brand new, fully branded, and reliable vehicles.
- Contract negotiations – owning a fleet of vehicles may put the Council in a stronger position with a range of potential bidders as we enter negotiations for a new contract.

3.8 Given the benefits set out above, it is recommended that provision is made within the Council's capital budget to enable a potential fleet purchase.

4. Implications of Decisions

4.1 Corporate Priorities

4.1.1 The provision of a refuse and recycling collection service is a legal requirement and one of the Council's core functions. In addition, the following Corporate Priorities are relevant:

CO15: We will have robust plans in place to ensure the long-term sustainability of the council, maximising the use of our resources and assets to create community benefits

CO16: The environmental impacts of growth are mitigated as far as practically possible.

4.2 Consultation

4.2.1 The appropriate Members and officers have been consulted in preparing this report. Public consultation is not required or appropriate.

4.2.2 Officers have carried out some soft market testing with suppliers of fleet, including approximate pricing, lead times and specifications. Lead times are currently uncertain due to the fact that all authorities across the country will be seeking to procure food waster vehicles at the same time.

4.3 Financial

4.3.1 In summary, the council can finance a full replacement vehicle fleet, as shown in Table 2 below with a detailed commentary from paragraph 4.3.2 onwards.

Capital Cost		Table 2			
	2024/25 £				
Refuse	4,450,000	Capital and Revenue Implications for Vehicle Replacement			
Food Waste	1,080,000				
Ride On Mowers	432,500				
Cost of Acquisition - pre Contingency	5,962,500				
Contingency @ 5%, as per Rule E5, Constitution	298,125				
Total Cost of Acquisition	6,260,625				
DEFRA Grant: Food Waste	(840,000)				
Direct Revenue Financing:	(470,000)				
Council agreed allocation from Earmarked Reserves (2025/26) (1)					
Net Cost of Acquisition	4,950,625				
Revenue Cost		2025/26	2026/27	2027/28	2028/29
		£	£	£	£
Revenue					
Estimated Economic Life (years)	7				
Estimate Annual Capital Financing Charge	707,232	707,232	707,232	707,232	707,232
Current Additional contract fee		(400,000)	(400,000)	(400,000)	(400,000)
FCC 5% Escalator Charge		0	(291,000)	(291,000)	(291,000)
Net Expenditure Impact		307,232	16,232	16,232	16,232
Allocation to/(from) the Capital & Contracts Earmarked Reserve		(307,232)	(16,232)	(16,232)	(16,232)
Net Revenue Impact		0	0	0	0

4.3.2 **Capital:** Currently there is no capital allocation in respect of vehicle replacements for Waste or Grounds Maintenance. As noted in Table1, the total cost of replacing the fleet and additional vehicles to support food waste is £6m, when 5% Contingency is included ([Constitution, Rule E5, page 184](#)) the total cost of acquisition is £6.3m. The Council has a total of £1.34m in funding to support vehicle acquisition giving a net cost of acquisition of £5m. The £1.34m is made up of:

- £840k from DEFRA as a contribution to the new food waste responsibility, and a
- £470k revenue allocation for vehicle purchase in 2025/26 ([Council, February 2024, para 3.21](#)).

NB. In respect of the £1.34m, if these allocations are needed during 2024/25, the Council can forward fund this entire allocation from the Capital & Contracts Earmarked Reserve as the forecast balance at 31 March 2025 is £2.1m. This reserve can be reimbursed when the respective allocations are received during 2025/26.

4.3.2 **Revenue:** the Council has made prudent budgetary provision in respect of the potential future costs of the Waste and Grounds Maintenance Contract. In the 2024 Budget and Medium-Term Financial Strategy, approved by Council in February 2024, the following budgetary provisions were included:

- For 2025/26 and each year thereafter, an estimated increase in the annual cost of the contract of £400k per annum (non-cumulative) (Council, February 2024: [Apx 1, page 18](#) / [Apx 3, page 4](#)).
- For 2026/27 and each year thereafter, a contingency amount reflecting a 5% Escalator Charge of £291k per annum (non-cumulative) (Council, February 2024: [Apx 1, page 28](#)).

4.3.3 In respect of the revenue costs relating to capital financing, assuming an economic life of 7-years, the estimated net annual capital financing charge for the entire fleet is £707k. Under the Councils accounting policies, the revenue impact of capital financing is not incurred until the year following completion of the capital project. Therefore, if acquisition completes this financial year, capital financing charges would not commence until 2025/26.

4.3.4 Based on the scenario whereby acquisition occurs during 2024/25, the revenue impact for:

- 2025/26, will be an additional cost of capital of £307k.
- 2026/27 and thereafter, there would be marginal growth of £16k per annum.
- To neutralise these costs, these could be financed from the Capital & Contracts Earmarked Reserve. However, from a “sustainability” point of view, it is more likely that these costs will be included as growth items within the 2025/26 budget setting process.
- It should be noted that if the 5% Contingency is not included in the cost of acquisitions, the 2025/26 cost will be £265k, with the 2026/27 ongoing cost being a small surplus of £26k.

4.3.5 **Value for Money**; comparing the annual revenue capital financing charge of £707k for a new vehicle fleet to the £900k stated by the current contractor, this shows that it is beneficial for the Council to purchase a vehicle fleet rather than for the contractor to hire/lease.

Legal

4.3.1 This report relates to the allocation of capital funding only.

4.4.2 Any subsequent fleet purchase would be subject to procurement regulations.

4.4 Environmental Implications

4.4.1 Officers have discussed with suppliers possible alternatives to diesel vehicles, this would include electric, carbon neutral gas and hydrogen powered vehicles. Based on the infrastructure required, market availability and rurality of the district would make this cost prohibitive at the present time. However, officers will continue to consider all options, including electric powered lifting gear and the use of technology to make the vehicle more efficient when operating.

4.5 Risk Management

- 4.6.1 There are no risks associated with the allocation of capital funding, as should a fleet purchase not proceed then the funding will not be required.
- 4.6.2 It is anticipated that there will be a number of risks associated with a fleet purchase. These will be identified through the development of the business case; and reported and managed through the governance arrangement, decision making, and subsequent risk register.

4.7 Equalities Impact

- 4.7.1 No impacts associated with this report, however, there is an Equalities Impact Assessment for the Environmental Services service area.

4.8 Data Protection

- 4.8.1 No data protection implications.

5. Alternative Options Considered

- 5.1. The alternative option is to proceed with contract extension based upon the leasing of vehicles. This would however not achieve the benefits set out at 3.7 above, and would be considerably more expensive.

6. Recommendation

- 6 It is recommended that a capital budget allocation is made to a maximum value of £6.3m. This will enable progression to a business case and potential procurement.

7. Background papers

- 7 None.