

Cabinet Member Delegated Decision 20 August 2019

Report title: Waste and Cleansing Fleet Replacement

Wards: All

Portfolio: Deputy Leader (Environment and Clean Air): Councillor Claire Holland

Report Authorised by: Bayo Dosunmu: Strategic Director Residents' Services

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Report summary

This report sets out the proposed process for the partial renewal of the Waste and Cleansing Fleet, required in advance of the introduction of extended Ultra Low Emission Zone in London in October 2020. It also covers the proposed replacement of 5 existing small mechanical brooms with 5 new electric small mechanical brooms (eSMBs).

The vehicles will be procured by Veolia Lambeth, in accordance with existing contract provisions. Lambeth will lease the vehicles back to Veolia to deliver the services at a rate equivalent to the estimated hire cost initially proposed by Veolia (approx. ££961,000 per annum)

Finance summary

The anticipated spend on replacement vehicles in 2019/20 is £4,349,491, of which £4,055,899 is for refuse collection vehicles and £293,592 for eSMBs. A capital budget has been agreed for this expenditure

Recommendations

1. To vary the waste and cleansing contract with Veolia, to procure 24 refuse collection vehicles (RCVs) and 5 electric small mechanical brooms (eSMBs) in 2019/20 at a cost of £4,349,491 and to enable annual hire costs to be recharged to Veolia through the existing contract until the end of the contract term.

1. Context

- 1.1 The current waste and cleansing contract with Veolia is due to expire on 31 March 2021 and there are no provisions in place to extend. The responsibility for the provision of the fleet required to deliver the services currently sits with Veolia and are charged back to the Council through the core contract costs.
- 1.2 The Council, following a review of service delivery model options, has opted to re-procure on the basis of partial insourcing, placing risk where it is best managed. For example, labour force and service provision only. It is intended that the council retains control over some of the key functions, together with key assets and infrastructure. This will include the financing of the fleet required to deliver the services from April 2021.
- 1.3 On 26 October 2020 the requirements to meet the Low Emission Zone (LEZ) emissions standards will be extended. Lorries and other specialist vehicles over 3.5 tonnes will need to meet Euro VI standards. The current waste and cleansing contractor (Veolia) is liable to ensure its fleet meets the standards or will be required to pay the daily charge of £100 per vehicle. At present Veolia are running 26 RCVs that are at their end of useful life and will not, in any case, meet the emissions standards required of Ultra Low Emissions Standards in October 2020.
- 1.4 The current fleet includes five small mechanical brooms that have reached their end of life and require replacement. It is proposed to upgrade these vehicles when replaced to expand our current fleet of eSMBs.
- 1.5 The council is committed to being carbon neutral by 2030. The fleet replacement programme has been developed to enable the waste collection and cleansing services support this commitment through the phasing in of electric vehicles to deliver these services. Zero emission vehicles will make a significant positive contribution to improving the quality of air within the borough, supporting the life chances of our most disadvantaged residents, particularly the young and elderly who are adversely affected by high levels of poor air quality. Shifting to reduced emissions and then zero emissions once the opportunity arises is a practicable and positive approach to addressing such issues.

2. Proposal and Reasons

- 2.1 The current fleet consists of 26 Refuse Collection Vehicles (RCVs) that have reached their end of life. There is no opportunity to sweat these assets and continue to use them as this would present a risk of higher maintenance costs for Veolia. Furthermore, none of these vehicles currently meet the criteria for the ULEZ expansion in October 2020.
- 2.2 A fleet replacement options exercise has been completed and approval given to the council procuring replacement vehicles and leasing them back to the contractor.
- 2.3 Following an exercise reviewing the current contract vehicle spares ratio, it has been agreed with Veolia to amend and implement a reduced spares ratio, there is now a requirement to replace the current 26 RCVs with 24 RCVs. This will free up some funding from the agreed programme to finance the trialling of an electric RCV.
- 2.4 The supply of electric refuse collection vehicles is limited at the moment. Officers are engaged in discussions with the Council's current contractor to secure an electric RCV to test and are hopeful that a vehicle can be secured early in the final quarter of 2019/20 so that the suitability, effectiveness and supporting infrastructure can be better understood.

- 2.5 As part of a service review of the street cleansing service undertaken in 2017/18 five additional SMBs were purchased to complement and enhance the existing service. At this time the principle was agreed to purchase electric SMBs in order to have a positive environmental impact particularly in areas where vehicles emissions are high and air quality levels are breaching legal limits. These electric SMBs are likely to reach their end of life and require replacement in 2022/23.
- 2.6 The original fleet of five diesel small mechanical brooms (SMBs) is now due for replacement. This report proposes to replace the diesel vehicles with electric, based on the principles adopted previously. However, the purchase cost of electric SMBs is significantly higher than the diesel version and provision is not within the current contract for Veolia to incur the additional costs.
- 2.7 The total expenditure required is £249,810 for the purchase of five standard diesel SMBs which will be funded by Veolia. To upgrade these vehicles to electric would cost a further £283,592, resulting in a total cost of £533,402. An additional £10,000 will be required to install the necessary charging facilities to support the new vehicles. The council's contribution to enhance the eSMB fleet therefore amounts to £293,592.
- 2.8 It is proposed that Veolia purchase the required vehicles and that the existing contract is varied to enable the council to lease back the vehicles to Veolia in order to ensure ongoing service delivery. Veolia has drawn up the relevant specifications and has sought quotations from existing preferred suppliers.
- 2.9 The current contractor is responsible for the provision of the required fleet to deliver the contract. In 2017/2018 the council financed the purchase of 5 electric SMBs, which are wholly owned by the council rather than the contractor. The contractor carried out the procurement process seeking quotations from its preferred list of suppliers, ensuring the competitive process delivered value for money.
- 2.10 Veolia has significant expertise in the purchasing of fleet and assets, managing a large number of municipal waste and cleansing contracts. In London alone Veolia delivers such contracts across 14 of the 33 London Boroughs. Whilst Lambeth could undertake the procurement separately from the existing contract it does not have internal expertise in procuring such specialist vehicles and given the limited suppliers such an approach would be likely to increase risk and cost; and delay implementation (as set out in section 6)
- 2.11 The approach proposed will be embedded in the future Recycling, Waste and Cleansing contract being procured for April 2021.
- 2.12 This procurement is part of a phased fleet replacement programme intended to enable the council to shift to a zero emission during the life of the contract. Whilst this is subject to technological developments in this area and the establishment of a commercially viable supply of zero emission vehicles, the arrangements provide the Council with the scope and flexibility to realise opportunities as they arise and contribute towards the Council's commitment to be carbon neutral by 2030. The estimated life of an RCV is approximately 7 years although this is dependent on level of use. On this basis the new RCVs will require replacement sometime in 2026/27 at the point when the new contract will be subject to negotiation and possible extension.
- 2.13 The proposal to move to reduced emission fleet in the first instance and moving to zero emission fleet at the earliest expected opportunity will ensure that ongoing delivery of the waste and cleansing services will not continue to adversely impact on public health and the inequality of such impacts adversely affecting Lambeth's more vulnerable and disadvantaged residents,

3. Finance

- 3.1 The procurement will be carried out by Veolia at no additional cost to the council.
- 3.2 The estimated capital costs required to replace the existing 26 vehicles was originally set at £4.68m (an estimate of £180,000 per vehicle). However, due to a reduction in the number of vehicles required (now 24), and an improved price position, the total capital requirement is £4,055,899 (approximately £169,000 per vehicle). The remaining funding can be utilised to test the use of an electric vehicle throughout 2020/21.
- 3.3 The purchase of five standard diesel SMBs would cost £249,810 which will be covered by Veolia and upgrading them to electric would cost a further £283,592, resulting in a total cost of £533,402. An additional £10,000 will be required to install the necessary charging facilities to support the new vehicles. The council's contribution to enhance the eSMB fleet therefore amounts to £293,592.
- 3.4 The total summarised cost is as follows:

Vehicle type	No. units	Estimated cost (£)
Refuse collection vehicles	24	4,055,899
Electric SMBs	5	293,592
Total	29	4,349,491

- 3.5 This procurement is part of a wider fleet replacement programme, the financial implications for which are set out below:

	Year	Capital Investment (£)	B/F Balance (£)	Interest @ 3% (£)	Savings (£)	C/F Balance (£)		Contract Capex Avoided - £980k + 2.5% Per Annum (£)	Contract Interest Avoided (£)
2019/20	1	4,349,491	4,349,491	130,485	1,197,475	3,282,501		980,000	217,475
2020/21	2	2,127,338	5,409,839	162,295	1,275,715	4,296,419		1,004,500	271,215
2021/22	3		4,296,419	128,893	1,250,888	3,174,423		1,029,613	221,276
2022/23	4	558,142	3,732,565	111,977	1,252,100	2,592,443		1,055,353	196,747
2023/24	5	733,589	3,326,032	99,781	1,261,500	2,164,312		1,081,737	179,764
	6		2,164,312	64,929	1,234,032	995,210		1,108,780	125,252
	7		995,210	29,856	1,204,514	(179,448)		1,136,500	68,014
	8		(179,448)	-	1,172,827	(1,352,275)		1,164,912	7,915
		7,768,560		728,216	9,849,051	- 1,352,275		8,561,394	1,287,657

4. Legal and Democracy

- 4.1 The authority to enact this report's recommendation is delegated to the Deputy Leader (Environment and Clean Air). Before exercising that authority, this paper should be reviewed by a category board / the Procurement Board.
- 4.2 The Public Contracts Regulations 2015 allow for the modification of contracts where, due to circumstances which a diligent contracting authority could not have foreseen, additional services have become necessary and where a change of contractor cannot be made, for technical reasons

such as requirements of interchangeability or interoperability with existing equipment, without causing significant inconvenience or substantial duplication of costs for the contracting authority. The modification must not alter the overall nature of the contract and any increase in price must not exceed 50% of the value of the original contract.

- 4.3 This proposed key decision was entered in the Forward Plan on 23 July 2019 and the necessary 28 clear days' notice has been given. In addition, the Council's Constitution requires the report to be published on the website for five clear days before the proposed decision is approved by the Cabinet Member. Any representations received during this period must be considered by the decision-maker before the decision is taken. A further period of five clear days - the call-in period – must then elapse before the decision is enacted. If the decision is called-in during this period, it cannot be enacted until the call-in has been considered and resolved.

5 Consultation and co-production

- 5.1 The proposed approach at this stage will not impact directly on service users with respect to current methods of service delivery. However, this is the first stage in a longer term fleet replacement programme that intends to shift towards zero emission vehicles during the life of the next recycling, waste and cleansing contract due to commence in April 2021.
- 5.2 The council has recently engaged with residents and key stakeholders with respect to its emerging Waste Strategy review. The proposals to shift wherever possible to zero emission/clean fuel fleet has been welcomed and fully supports the Council's ambition to be carbon neutral by 2030 and the Mayor of London's environmental ambitions with respect to environmental performance standards. The shift to eSMB reflects these ambitions.
- 5.3 The funding required to procure the vehicles set out in this report has been secured as an overall fleet replacement programme covering a period of 6-7 years. This programme and approach was approved internally on 27 June 2019. This followed consultation with the Recycling, Waste and Cleansing Contract procurement Programme Board.

6 Risk management

- 6.1 Refuse collection vehicles are complex pieces of machinery. They generally comprise of three separate parts (Chasses, Body and Lifts) with an added decision on the configuration, some of which are supplied by different manufacturers. For example, Chassis and body (Containing bin lifting equipment) or chassis, body and separate bin lifting equipment. Requirements also include on board weighing and in cab technology.
- 6.2 It is the responsibility for Veolia as the Contractor to ensure that it provides vehicles suitable to deliver the services set out in the contract. It is therefore important that Veolia develops the specification in consultation with the Council to ensure that the vehicles procured are fit for purpose.
- 6.3 Veolia will retain responsibility for the ongoing management and maintenance of the vehicles in accordance with the Contract.
- 6.4 The proposed approach for Veolia to specify and procure the vehicles therefore ensures the risks continue to sit with the contractor in accordance with the contractor

Table 2 – Risk Register

Item	Risk	Likelihood	Impact	Score	Control Measures
1	Lengthy procurement process delaying Lambeth's ability to realise the positive air quality and public health benefits and addressing the needs of disadvantaged communities.	3	4	12	Enable Veolia to complete process in accordance with contractual obligations
3	Vehicles are not suitable to deliver the service, resulting in the council being liable for any additional costs	2	4	8	Veolia, as the service delivery specialist draw up spec and manage procurement
4	Delays in build time and delivery, resulting in Lambeth being liable for ULEZ fines of £100 per day per vehicle. It would also result in a reduced lease back period resulting in additional costs to the council. Estimated additional costs to the authority are <ul style="list-style-type: none"> • ULEZ Fines based on 3 months £150,000 Lease back reduction £750,000	3	4	12	Veolia has secured commitments from suppliers to deliver within timescales subject to order confirmation
5	Cost of vehicles in unaffordable	2	3	6	Quotations provided and within funding envelope
6	Undertaking a procurement exercise without technical expertise and pulling together component parts that result in constant breakdowns and service failures	3	4	12	Veolia have the necessary skill set to procure the component parts and ensure the vehicles last for the expected life expectancy and have a vested interest in achieving this outcome
7	Potential impact of Brexit	3	1	3	The vehicles are manufactured in the UK using UK sourced parts so there should be no issues with regards supply. Prices are fixed and not subject to shifts in exchange rates.

Key

Likelihood	Very Likely	4	Likely	3	Unlikely	2	Very Unlikely	1
Impact	Major	8	Serious	4	Significant	2	Minor	1

7 Equalities impact assessment

7.1 An Equalities Impact Assessment has been completed and is attached as Appendix A.

8 Community safety

8.1 There are no specific community safety implications from the recommendations.

9 Organisational implications

Environmental

9.1 The proposed LEZ standards that will be introduced from October 2020 will apply to the waste and cleansing fleet. The procurement of 24 new RCVs that meets these requirements will have a significant benefit with respect to reduced emissions and consequent beneficial impacts on air quality within the borough.

9.2 Our current contractor, Veolia, have FORS Gold accreditation and this will be a requirement for the new Recycling, Waste and Cleansing contract being procured for April 2021.

Staffing and accommodation

9.3 There are no staffing impacts on the proposals contained within this report. However, there will be a need to develop electric charging infrastructure at the council's Shakespeare Road depot. Longer term aspirations to move to an electric fleet will require significant infrastructure changes.

9.4 Responsible Procurements

Veolia's approach to sustainable procurement includes regular assessment of strategic suppliers. Key performance indicators used in such assessments include Supplier approach to Corporate Social Responsibility, weight of expenditure invested in the local economy, the percentage of contracts with sustainable development clauses, amongst other matters.

9.4 Procurement

The Fleet Replacement Programme Business Case and approach was approved by the Cabinet Member on 27 June 2019, following consultation with Environment and Street Scene Service Management Team, Residents' Service Departmental Management Team and the Recycling, Waste and Cleansing Contract Procurement Programme Board.

10 Contract Management

10.1 The existing waste and cleansing contract sets out the requirement for the contractor to purchase the necessary vehicles suitable for the delivery of the services contained within the contract.

10.2 The contract sets out requirements both in respect of Health and Safety and the requirements to reports any issues with respect to accidents or near accidents. There have been no reported issues.

10.3 The contract sets out requirements for the contractor to maintain a Business Continuity Plan and to ensure it is maintained, reviewed and updated as appropriate.

10.4 There are effective contract management and governance systems in place to ensure the services are delivered in accordance with the contractor, including regular performance reporting.

11 Timetable for implementation

Activity	Key date
Decision report published	12 August 2019
Decision made	20 August 2019
Decision implemented (subject to call-in)	29 August 2019
Variation documents concluded	29 August 2019
Orders placed	1 September 2019
Build slots agreed	1 October 2019
Vehicles delivered and operational	1 April 2020

Audit Trail				
Consultation				
Name/Position	Lambeth directorate / department or partner	Date Sent	Date Received	Comments in paragraph:
Councillor Claire Holland	Deputy Leader (Environment and Clean Air)	08.08.19	08.08.19	Various
Councillor Andy Wilson	Cabinet member for Finance and Performance		12.08.19	
Resident Services, Raj Mistry	Director of Environment and Streetscene	10.07.19	11.07.19	
Head of Procurement, Rachel Willsher,	Finance & Investment	02.08.19	06.08.19	Various
Finance Andrew Ramsden	Finance & Investment	02.08.19	07.08.19	
Legal Services Michael O'Hora	Legal & Governance	02.08.19	05.08.19	Section 4
Maria Burton, Democratic Services	Legal & Governance	02.08.19	06.08.19	Section 4

Report History	
Original discussion with Cabinet Member	18 April 2019
Report deadline	N/A
Date final report sent	N/A
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	Yes
Date first entered on the Forward Plan	23.07.19
Key decision reasons	Expenditure, income or savings in excess of £500,000
Background information	None
Appendices	Appendix A – Equalities Impact Assessment

APPROVAL BY CABINET MEMBER OR OFFICER IN ACCORDANCE WITH SCHEME OF DELEGATION

I confirm I have consulted Finance, Legal, Democratic Services and the Procurement Board and taken account of their advice and comments in completing the report for approval:

Signature: _____ **Date:** _____

Post: Cormac Stokes, interim Head of Environmental Services

I approve the above recommendations:

Signature: _____ **Date:** _____

Post: Councillor Claire Holland, Deputy Leader for Environment and Clean Air

Any declarations of interest (or exemptions granted): None

Any conflicts of interest: None

Any dispensations: None