Portfolio Holder Decision
Capital Investment Fund - HWRC Haulage Provision

Portfolio Holder	**Leader of the Council**
Date of decision	**6 August 2021**
	Signed

1. Decision taken
1.1 Approve £412,500 from the Capital Investment Fund for the purchase of three HWRC haulage vehicles and add to the Capital Programme; 1.2 Authorise the Strategic Director for Communities to procure and enter into any agreements to give effect to the proposals in consultation with the Portfolio Holder for Environment, Climate and Culture on terms and conditions acceptable to the Strategic Director for Resources

2. Reasons for decisions

2.1. Under existing capital approval rules agreed by Members, all CIF allocations and subsequent additions to the capital programme require approval by Cabinet (and Council if the cost of the scheme exceeds £2 million) or the Leader.

2.2. Services are invited to submit detailed bids to the CIF for evaluation by the Fund's Technical Panel. The Panel, consisting of experts from Finance, Legal, Property, Project Management Office and Directorate Service Teams evaluate and score each individual bid based on the bid's strengths in each of the following key areas:

- Delivery of the Council's Strategic Objectives;
- Alignment with the investment criteria of the capital strategy;
- Achievability, quality of evidence base, rational evaluation and challenge of options, financial viability and risk; and
- Sustainability, climate change and environmental impact.

2.1. £24.900 million per annum has been added to the 2021-26 Medium Term Financial Strategy for the CIF. The estimated drawdown from the CIF for the proposal in this report can be accommodated within the available CIF budget allocation. Detailed expenditure profiles will be spread over multiple years and does not exhaust the available CIF funding in any given year.

3. Background information

3.1. In 2012, Warwickshire County Council took the management and operation of all but one of its Household Waste Recycling Centres (HWRCs) in-house after many years of contracted service, and the Waste Management Group are now responsible for eight HWRCs. When the HWRCs were insourced, it was decided that the haulage and transport services that underpin the operation of the HWRCs would be partly outsourced and partly delivered by WCC.

3.2. The HWRC haulage contract has been operated by Biffa since 2012 and will end in November 2021. Separating HWRC haulage provision and the operation and management of HWRCs is rare in both the public and private sector as haulage is so critical to the effective management of HWRC sites and there are currently no other examples of the Warwickshire's current HWRC operating model in the UK.

3.3. Detailed analysis undertaken by an independent external consultant concluded that delivering full in-house haulage is the best option for the Council, both operationally and financially, and also for the environment. The external consultant has been used to challenge current operations and service delivery and help the service decide how best to deliver services in the future. This external report recommended that the current external recycling centre transport services are brought in-house.

3.4. The Council would procure three specialist (construction class hooklift) diesel powered vehicles to build an in-house haulage fleet of six vehicles (the Council currently owns and operates three hooklift vehicles) to commence service delivery by or on 1 December 2021 to:

- Attend the HWRCs, or other Council or Local Authority site, to replace full containers with empty containers as required;
- Remove filled containers from the HWRCs, or other Council or Local Authority sites, and haul of them to various End Destinations and/or Disposal Points (i.e. reprocessing, treatment, waste bulking stations or disposal sites etc);
- Weigh in and out at the HWRCs, or other Council or Local Authority site, and End Destinations and/or Disposal Points;

- Observe and comply with the rules of the associated sites attended whilst performing services under this Contract which include those of the Council, other Local Authorities and third-party suppliers;

- Observe and comply with all applicable legislation and practice for health and safety and environmental compliance.

3.5. This project is designed to make better use of WCC property estate by using existing recycling centres to host transport assets. This negates any need for a specific depot and puts lorries closer to where they are actually needed.

3.6. Direct control of transport infrastructure will enable the team to deliver more services in the future and also, potentially, sell any spare capacity in the marketplace to other local authorities or the private sector to generate revenue. It also facilitates further diversification and income generation and/or cost reduction across operational activities. The new lorries will require less servicing and maintenance which will be provided by County Fleet Maintenance thereby utilising and further developing an in-house service.

3.7. Currently WCC operates three vehicles and the contractor operates three to four vehicles. WCC holds a commercial transport contract whereby WCC control some of the key financial risks of the supplier. In soft market testing with the market, including the current incumbent, any future contract would not result in the same outcome and WCC would be required to control and own such risks. Whilst this is a reasonable position for suppliers to take, it would expose WCC to higher costs than it has had under the existing contract. Furthermore, the current contract gives the supplier little assurance in terms of income against their fixed costs and capital repayments.

3.8. The new haulage service will cost significantly more money if it continues to be outsourced and the waste management revenue budget has not been increased to pay for this specific need. It is estimated that if we continued to outsource the contract, it would cost at least an approximate additional £100,000 per annum.

3.9. If the project does not go ahead, there will be increased revenue costs of at least approximately £100,000 per annum and a lost potential efficiency saving of £38,500 per annum against the existing revenue budget.

3.10. <u>Technical Panel Findings</u>

The Panel scored the bid as follows:

Delivery of the Strategic Objective (Out of 8)	6 (75%)
Alignment with the investment criteria of the capital strategy (Out of 32)	23.2 (73%)
Achievability, quality of evidence base, rational evaluation and challenge of options, financial viability and risk (Out of 32)	26 (81%)
Sustainability, climate change and environmental impact (Out of 8)	5 (63%)
Total Score (Out of 80)	**60.2 (75%)**

The following key points were raised by the Panel:

Delivery of the Strategic Objective (75% or 6/8)

- The bid was submitted under the 'Making Best Use of Resources Outcome' and explained how the investment would put the authority's financial resources in the right place to support the Organisation's priorities. Additionally, the panel felt other Strategic Objectives under the outcome such as 'Develop our work force so that it has the right skills and capabilities to get the job done' and 'Reduce demand and cost through innovative and effective service redesign' were partially addressed. To demonstrate achievement of the objective 'pursuit of leadership excellence and high performance at all levels' further baseline data and benefits monitoring should be used as part of post project evaluation.

Alignment with the Capital Strategy (73% or 23.2/32)

- The panel agreed the bid demonstrated and linked how specific Capital Investment Priority Outcomes as part of the Capital Strategy will be achieved, particularly in using WCC owned assets to provide a more efficient and effective service, by reducing servicing and maintenance costs and reducing the mileage lorries have to travel. The score would have increased had more detail and evidence been provided on how the proposal aligned with other strategies (such as asset replacement) given the weighting behind the section.

Quality of evidence base, rational evaluation, financial viability and risk (81% or 26/32)

- The bid explained the £412,500 figure has not been contractually agreed and was not clear on whether initial cost indications could change, the panel would have expected a degree of contingency for vehicle purchase at this stage but the service explained that the current market testing has given a good indication of the cost of the vehicles and therefore a contingency was not required.

- The bid did not contain an appraisal of whether leasing would be a better procurement option, the external expert’s report recommended purchasing but little evidence was provided in the bid as to why this was the best solution for WCC’s financial position. However, the bid did demonstrate the non-financial benefits of purchasing over leasing by reducing the amount of instances HWRCs may need to close due to full capacity and the resultant mixing of waste. The Service have committed to monitoring these benefits through continuous budget and service management (inc. reports and performance indicator monitoring).

- The estimated useful lives of the current vehicles operated by WCC is 10 years but the bid did not explain how the purchase of new vehicles will be replaced at the end of their lives or whether there is a strategy for wider replacement. Part of the panel’s recommendation is that the service consider how to future proof their assets as part of procurement.

- Financial benefits may arise from the project based on income generation, but the financial appraisal did not include these as the initiatives are still at an early stage. This indicates that the financial appraisal was undertaken prudently and still returned a favourable outcome which therefore brings a of margin of safety around the revenue position.

- A detailed procurement timeline was not provided, therefore there could be an impact on costs if procurement dates change. If the vehicles don’t arrive on time there may be additional costs as a result of an extended interim period. This will have an impact on the financial appraisal payback period but as long as any interim period is not sufficiently long or costly then the financial appraisal of the project will still be favourable, however the panel stressed that this does need to be kept under review by the service.

- There was limited information on the interim arrangements and how service conversion will be achieved. The service did stress in their bid that measures were in place to ensure a smooth transfer of functions and staff but detail was light. In order to ensure this project is successful it’s recommended the service develops a detailed implementation plan for the TUPE arrangements.

- Overall this project is deemed relatively low risk and covered off well through mitigations, particularly if TUPE doesn't happen the service has the expertise to hire and train its own staff. The bid demonstrated well that any delays can be mitigated by flexibility in the revenue budget and the experience/skills of the current service.

Sustainability, climate change and environmental impact (63% or 5/8)

- The panel agreed the investment enables the service to meet the minimum regulatory standards by purchasing diesel vehicles with improved emissions. However, the project is not particularly innovative in this area, limited by the availability and cost of alternative electric vehicles. However, the bid has considered fuel alternatives and other emerging technologies and has indicated these will be explored as part of procurement.

- The new diesel-powered vehicles and service model will reduce travel distance/time and improved vehicle efficiency, but the environmental benefits (reduction of emissions of CO2 and its overall carbon footprint) are not anticipated to be significant. The service acknowledged CO2 savings are difficult to calculate but assuming a reduction in mileage and also new more efficient Euro level 6 vehicles means a carbon reduction in the order of 50 to 100 tonnes per annum. However, to ensure the service can maximise environmental benefits fuel saving options will also be explored including driver training and vehicle monitoring technology.

4. Financial implications

4.1. There are two aspects to the revenue impact of this bid on the MTFS, firstly the service holds a budget of £300,000 per year for the existing contract, by bringing the provision in-house £38,500 can be offered as a recurring saving as part of the MTFS refresh. Also, if the service were to remain outsourced then the annual contract would renew at an increased cost and create an additional revenue pressure of £100,000 per annum.

4.2. Due to the multi-year revenue impact from this investment a Net Present Value (NPV) calculation has been carried out to ascertain the payback period and to provide assurance on the viability of the proposal. At the end of a 5-year period, the project has a positive NPV (including the initial outlay of £412,500) indicating the project is viable. Given that the purchased assets are assumed to have a replacement lifecycle of approximately 10 years, the payback/breakeven point is between Years 4 and 5 (which is within the current MTFS period) further evidencing that the project is a worthwhile investment.

4.3. The majority of the return on this investment is the future cost avoidance of £100,000 per annum by not continuing to outsource the contract, the service has acknowledged this is based on a combination of soft market testing and their own expert knowledge but that without undertaking a tendering process for haulage this can only be an estimate. WCC currently hold a commercial transport contract whereby WCC control some of the key financial risks of the supplier. In soft market testing with the market, including the current incumbent, it has been made clear that any future contract would not result in the same outcome and WCC would be required to fully control and own such risks in future, this would expose WCC to higher costs than it has had under the existing contract. Furthermore, the current contract gives the supplier little assurance in terms of income against their fixed costs and capital repayments. From soft market testing it has been identified that contractors have become much more risk adverse with a focus on guaranteed income streams and this has been exacerbated by the coronavirus pandemic, which is leading to additional costs in contracting.

5. Environmental implications

5.1. It is not anticipated that the Council will be able to procure electric-powered vehicles for this service. During soft market engagement with manufacturers, it was clear that the requirements of this type of vehicle cannot currently be met using alternative fuels due to the power requirements of hook lift equipment and heavy load haulage distances (on and off-road). However, the procurement exercise will be clear that the Council will consider bids for vehicles utilising any emerging technologies to reduce their carbon impact, should viable options be made available. The vehicles anticipated to be purchased will meet EURO level 6 emission standards and will be procured via an exercise that includes a question relating to design elements that further limit the carbon footprint of vehicle options tendered. The optimum life expectancy of vehicles of this type from new is 7-10 years and when the new vehicles are due for replacement the Council can expect viable non-diesel alternatives to be available. Fuel saving options will also be explored including driver training and vehicle monitoring technology.

5.2. The Council also has the ability to use its recycling centres as vehicle depots and this means lorries can be sited closer to where they are needed. As well as operational efficiencies this means that there will be less ‘wastage’ as lorries will not need to travel less to their first pick up point meaning less fuel usage. This will also reduce congestion and improve air quality.

5.3. This project enables the Council to reduce emissions of CO_2 and its overall carbon footprint. It also will help to reduce congestion and improve air quality. CO_2 savings are difficult to calculate but assuming a reduction in mileage and also new more efficient Euro level 6 vehicles means a carbon reduction in the order of 50 to 100 tonnes per annum.

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Urgent matter?	*No*
Confidential or exempt?	*No*
Is the decision contrary to the budget and policy framework?	*No*

List of background papers
None

Members and officers consulted and informed
Portfolio Holder – Councillor Heather Timms Corporate Board – Monica Fogarty, Mark Ryder, Rob Powell, Nigel Minns Legal – Sarah Duxbury, Ian Marriot Finance – Andy Felton, Virginia Rennie Equality – N/A Democratic Services – Paul Williams, Helen Barnsley Councillors – Councillor Jeff Clarke, Councillor Adrian Warwick Local Member(s): N/A