

# Joint waste service fleet procurement

Councillor Phil Whitehouse, Cabinet Member for Operational Services, Parks & Waste

Date: 30 July 2024

Agenda item:

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Key decision? YES

Local ward All

members



Lichfield  
District Council

**CABINET**

**Appendix 1 restricted by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.**

## 1. Executive summary

- 1.1 Lichfield District Council is currently in a contract hire arrangement for the provision of refuse collection vehicles that support delivery of the joint waste service with Tamworth Borough Council through Specialised Fleet Services (SFS) Limited.
- 1.2 The current contract expires on 31 March 2025. In advance of this a PCR-compliant tendering exercise has been conducted to select a new supplier for 2025 – 2032, which initial market testing suggested represents the best value contract period for the council.
- 1.3 £11.6 million has been identified in the medium-term financial strategy and future financial modelling, across the projected seven-year contract term (1 April 2025 – 31 March 2032) to support the procurement of the new contract.
- 1.4 The assessment of the tenders has identified a preferred bidder on both financial and quality grounds for the proposed contract period of 1 April 2025 – 31 March 2032. The tender submitted indicates the new fleet can be delivered for within the required £11.6m budget over the seven-year period through a hire contract arrangement.
- 1.5 This paper seeks Cabinet's approval to delegate the award of the contract to the preferred bidder to Lichfield District Council's Cabinet Member for Operational Services, Parks & Waste, the Director for Resident & Business Services and the Director of Finance, Regulation & Enforcement (S151), subject to approval by Tamworth Borough Council's Full Council in September of the proposed contract award, and final contract discussions with the preferred supplier, provided it is deliverable within the allocated budget of £11.6m over seven years.

## 2. Recommendations

- 2.1 It is recommended that Cabinet delegate the award of the contract to the preferred bidder to Lichfield District Council's Cabinet Member for Operational Services, Parks & Waste, the Director for Resident & Business Services and the Director of Finance, Regulation & Enforcement (S151), subject to approval by Tamworth Borough Council's Full Council in September of the proposed contract award, and final contract discussions with the preferred supplier, provided it is deliverable within the allocated budget of £11.6m over seven years.

- 2.2 That Cabinet notes a PCR-compliant tendering exercise was conducted and the preferred bidder demonstrated most economically advantageous tender and scored most highly in the quality criteria – see Appendix one for a full breakdown of price and quality scores (confidential).
- 2.3 That Cabinet notes the new contract will offer the option to run all vehicles on hydrotreated vegetable oil (HVO), which is the first stage in a transformation towards an alternatively fuelled fleet. A move to HVO would be subject to further Cabinet approval, based on considerations in relation to HVO fuel costs, availability and impact on efficiency and carbon targets.
- 2.4 That Cabinet notes the proposed contract also offers some level of flexibility and should other forms of greener vehicles become available and practical to manage as part of the council’s fleet in the future, the contract will allow for newer, greener vehicles to be switched in, subject to contract variation.
- 2.5 That Cabinet notes the contract includes the option to extend a further seven years beyond the first seven-year contract period and delegates to Lichfield District Council’s Cabinet Member for Operational Services, Parks & Waste, in consultation with Tamworth Borough Council, the Director for Resident & Business Services and the Director of Finance, Regulation & Enforcement (S151) the ability to exercise extension options provided the cost is deliverable within the approved budget.

### 3. Background

- 3.1 Lichfield District Council currently hosts the fleet contract for the joint waste service that also supports Tamworth Borough Council and has a contract with Specialised Fleet Services (SFS) Limited for the provision of refuse collection vehicles. The original contract length was 6 years 2 months and was extended for a further 2 years in April 2023. The contract expires on 31 March 2025.
- 3.2 The joint waste service requires a fleet of 26 refuse collection vehicles to provide collections of household waste (refuse, dry recycling, and garden) to the residents of Tamworth and Lichfield District, as well as collections of trade waste and recycling to businesses across Lichfield District. The contract also includes the option to procure one street cleansing vehicle on behalf of Lichfield District Council.
- 3.3 Tamworth Borough Council will co-host the new contract with Lichfield District Council and share any risks and liabilities. Tamworth Borough Council’s Cabinet is considering the procurement in August 2024. Costs are shared between the two councils, with the allocation of costs being based on property counts of each area. This can vary year on year, but is around 60/40%, with Lichfield District Council being the larger.
- 3.4 In awarding a ‘contract hire arrangement for vehicle fleet’ there was a need to balance cost and quality appropriately to ensure the joint waste service obtains best value for the correct level of service, with a professional reputable company. To achieve this a balanced award criteria that took account of price, quality of service and social value was utilised as detailed below:

<b>Supplier questionnaire and declarations</b>	Pass / Fail
<b>Pricing schedule</b>	60%
<b>Quality questionnaire (including social value)</b>	40%

3.5 The quality questionnaire was broken down into the following:

Quality questionnaire, including social value	100%
Contract management	5%
Mobilisation plan	10%
Service delivery and continuity	35%
Fair wear and tear policy and vehicle return	10%
Added value	5%
Social value, environment and community	25%
Health and safety	10%

3.6 The preferred bidder scored the following:

- Quality 34.40%
- Price 57.37%
- **Total: 91.77%**

3.7 An initial financial check of the preferred bidder has indicated no areas for concern, however the contract will not be awarded until the financial standing of the chosen supplier and insurance documentation have been fully ratified.

<b>Alternative options</b>	The council has the option to direct purchase vehicles instead of contract hire, which was explored in the paper to Cabinet in May 2024 – <a href="#">read paper</a> . The paper recommended that a contract hire arrangement as the most appropriate given budgets and risks, and this option was approved by Cabinet and Full Council.
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<b>Consultation</b>	<ul style="list-style-type: none"> <li>• There has been consultation with front line staff to ascertain the most suitable vehicles for our requirements, following recent trials of a variety of refuse vehicles available on the market.</li> <li>• Consultation with vehicle suppliers and contract hire companies to identify all the options available to the Joint Waste Service.</li> <li>• Consultation with our partner in the Joint Waste Service from Lichfield District Council and Tamworth Borough Council.</li> </ul>
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<b>Financial implications</b>	<p>The tender prices submitted by bidders are shown in detail at confidential <b>Appendix 1</b>.</p> <p><b><u>Financial implications</u></b></p> <p>The preferred supplier tender including no optional extras (options), must have optional extras and all optional extras compared to the Joint Waste Service Approved Budget is shown in detail at confidential Appendix 1 and in summary below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="3" style="background-color: #e0f0ff;">Both Authorities</th> <th rowspan="2" style="background-color: #e0f0ff;">Total</th> <th colspan="3" style="background-color: #e0f0ff;">Approved MTFS</th> <th colspan="4" style="background-color: #e0f0ff;">Further Projections</th> </tr> <tr> <th style="background-color: #e0f0ff;">2025/26</th> <th style="background-color: #e0f0ff;">2026/27</th> <th style="background-color: #e0f0ff;">2027/28</th> <th style="background-color: #e0f0ff;">2028/29</th> <th style="background-color: #e0f0ff;">2029/30</th> <th style="background-color: #e0f0ff;">2030/31</th> <th style="background-color: #e0f0ff;">2031/32</th> </tr> <tr> <th style="background-color: #e0f0ff;">£000</th> <th style="background-color: #e0f0ff;">£000</th> <th style="background-color: #e0f0ff;">£000</th> <th style="background-color: #e0f0ff;">£000</th> <th style="background-color: #e0f0ff;">£000</th> <th style="background-color: #e0f0ff;">£000</th> <th style="background-color: #e0f0ff;">£000</th> <th style="background-color: #e0f0ff;">£000</th> </tr> </thead> <tbody> <tr> <td style="background-color: #e0f0ff;">Approved Budget</td> <td style="background-color: #e0f0ff;">£11,620</td> <td style="background-color: #e0f0ff;">£1,660</td> <td style="background-color: #e0f0ff;">£1,660</td> <td style="background-color: #e0f0ff;">£1,660</td> <td style="background-color: #e0f0ff;">£1,660</td> <td style="background-color: #e0f0ff;">£1,660</td> <td style="background-color: #e0f0ff;">£1,660</td> <td style="background-color: #e0f0ff;">£1,660</td> </tr> </tbody> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #e0f0ff;">Lowest NO options</td> <td rowspan="3" style="text-align: center; vertical-align: middle;">See figures in the confidential appendix 1</td> </tr> <tr> <td style="background-color: #e0f0ff;">Lowest MUST HAVE options</td> </tr> <tr> <td style="background-color: #e0f0ff;"><b>Lowest ALL options</b></td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #e0f0ff;"><b>Saving - Lichfield DC (60%)</b></td> <td rowspan="3" style="text-align: center; vertical-align: middle;">See figures in the confidential appendix 1</td> </tr> <tr> <td style="background-color: #e0f0ff;">Lowest NO options</td> </tr> <tr> <td style="background-color: #e0f0ff;">Lowest MUST HAVE options</td> </tr> <tr> <td style="background-color: #e0f0ff;"><b>Lowest ALL options</b></td> <td></td> </tr> </table>	Both Authorities	Total	Approved MTFS			Further Projections				2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	£000	£000	£000	£000	£000	£000	£000	£000	Approved Budget	£11,620	£1,660	£1,660	£1,660	£1,660	£1,660	£1,660	£1,660	Lowest NO options	See figures in the confidential appendix 1	Lowest MUST HAVE options	<b>Lowest ALL options</b>	<b>Saving - Lichfield DC (60%)</b>	See figures in the confidential appendix 1	Lowest NO options	Lowest MUST HAVE options	<b>Lowest ALL options</b>	
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The preferred tender including all optional extras are within the Approved Budget. An element of the Council's share of savings will offset the Procurement target over the period of the contract hire arrangement.

The prices submitted are fixed throughout the initial seven-year contract period and therefore inflation risk during this period is accepted by the supplier.

### **Accounting implications**

At the commencement of the current contract, from an accounting perspective the contract hire arrangement was assessed to be a finance lease. This assessment was because the Council has an economic right to use assets and has also largely assumed the risks and rewards incidental to ownership.

The categorisation as a finance lease is likely to continue for the new contract hire arrangement with the introduction of a new financial reporting standard IFRS16. In anticipation of the new fleet and this assessment, an Approved Budget in 2025/26 of **£6,000,000** was included in the Capital Programme for the aggregated cost of vehicles.

The initial assessment of the total of contract hire payment over the 7-year initial period based on 27 vehicles and the current 7-year PWLB loan rate is shown below:

Cost Category	Assumption	£	Budget
Vehicle acquisition cost	27	See figures in confidential appendix 1	Capital programme
Finance cost	5.06%		Revenue budget
Services cost			Revenue budget
<b>Total</b>			

The accounting treatment as a finance lease will result in:

- An asset related to the cost of vehicles appearing on the Balance Sheet along with a matching lease obligation (with the asset and liability likely shared with Tamworth BC).
- The funding of assets through a contract hire arrangement will increase the Capital Financing Requirement or Borrowing Need and the debt level will increase to reflect the lease obligation.
- Annual lease payments being disaggregated based on their purpose:
  - The 'principal' element of the contract hire payment will be used to reduce the lease obligation.
  - The finance cost and service cost elements of the contract hire payment will be accounted for in the Comprehensive Income and Expenditure Statement.
- Minimum Revenue Provision matching the 'principal' element being charged to the Comprehensive Income and Expenditure Statement thereby reducing the Capital Financing Requirement or Borrowing need.

The Capital and Treasury Management Prudential and Local Indicators such as the Capital Financing Requirement or Borrowing need, Authorised Limit and Operational Boundary already include the necessary 'headroom' to accommodate this accounting treatment. However, there may be some Prudential and Local Indicators that subsequently need to be revised and this can be approved by Council as part of the Medium-Term Financial Strategy process. However, it is important to note that the accounting treatment will have no additional financial implications.

Approved by Section 151 Officer	Yes
Legal implications	A procurement-compliant tendering process has been carried out with the support of the council's procurement service. There are no further legal implications arising from the awarding of the contract.
Approved by Monitoring Officer	Yes
Contribution to Lichfield District 2050	The report supports delivery of <a href="#">Lichfield District 2050</a> of 'together we will create the greenest district in the country through an increase in the rate of recycling in the district to more than 65%, whilst reducing our overall waste'. The procurement also supports delivery of <a href="#">Lichfield District 2050</a> by ensuring the effective management of fleet for our Joint Waste Service.
Data assessment	Household figures for both Lichfield District Council and Tamworth Borough Council have been reviewed and taken account of to ensure the fleet will be adequate to support household growth into the future for the coming twelve-months, however further vehicles may be required depending on the impact of food waste initiatives.
Equality, diversity and human rights implications	There are not equality, diversity and human rights implications arising from this report.
EIA logged by Equalities Officer	Equalities Officer confirmed not required.
Crime & safety Issues	There are not crime and safety issues arising from this report.
Environmental impact (including climate change and biodiversity)	<ul style="list-style-type: none"> <li>• A new replacement fleet will support creating greener communities.</li> <li>• New vehicles will achieve lower carbon due to modern cleaner engines and increased fuel consumption.</li> <li>• All vehicles will have the ability to run on Hydrotreated Vegetable Oil (HVO). This is a stage in a transformation to an alternatively fuelled fleet. This will be subject to further Cabinet approval.</li> <li>• The contract also offers some level of flexibility and should other forms of greener vehicles become available and practical to manage as part of the council's fleet in the future, the contract will allow for newer, greener vehicles to be switched in, subject to contract variation.</li> </ul>
Crime & safety Issues	There are no crime and safety issues arising from the contract hire of fleet as detailed in this report.
GDPR / privacy impact assessment	There are no GDPR/privacy implications arising specifically from this report

	Risk description & risk owner	Original score (RYG)	How we manage it	New score (RYG)
A	Chosen contractor fails to deliver the appropriate level of service required.	<b>Yellow (material)</b> Likelihood (Yellow) Impact Assessment (Yellow)	Robust contract specification and monitoring. Regular contract review meetings.	<b>Green (tolerable)</b> Likelihood (Green) Impact Assessment (Green)
B	Chosen contractor ceases trading.	<b>Red (severe)</b> Likelihood (Green) Impact Assessment (Red)	Pre-diligence. Robust selection criteria and evaluation.	<b>Green (tolerable)</b> Likelihood (Green) Impact Assessment (Green)
C	The new vehicles are not delivered before the end of the existing contracts.	<b>Yellow (material)</b> Likelihood (Yellow) Impact Assessment (Yellow)	Early commencement of tendering process with a long immobilisation period. Step in arrangements specified in contract. The contract will make the chosen contractor responsible for spot hiring replacement vehicles in the interim period.	<b>Green (tolerable)</b> Likelihood (Yellow) Impact Assessment (Green)
D	Final contract discussions result in final specification that exceeds allowed budget through optional elements	<b>Yellow (material)</b> Likelihood (Yellow) Impact Assessment (Yellow)	Manage positive contract discussions to ensure base requirements are met without exceeding allowed budget.	<b>Green (tolerable)</b> Likelihood (Yellow) Impact Assessment (Green)
E	Deterioration of the existing service should the existing contractors fail to be awarded the new contract.	<b>Yellow (material)</b> Likelihood (Yellow) Impact Assessment (Yellow)	Maintenance of a good working relationship with the existing suppliers. Enforcement of current contract T&C's & remedies.	<b>Yellow (material)</b> Likelihood (Green) Impact Assessment (Yellow)
F	The council is required to fund dilapidation costs at the end of the contract hire arrangement	<b>Yellow (material)</b> Likelihood (Yellow) Impact Assessment (Yellow)	The fleet will be maintained by the contract hire company's own mechanics to industry standards.	<b>Green (material)</b> Likelihood (Green) Impact Assessment (Green)
G	Tamworth Borough Council does not agree/generates delay in agreement for budgetary spend to support procurement	<b>Red (severe)</b> Likelihood (Green) Impact Assessment (Red)	Work closely with Tamworth Borough Council to ensure timely decision making. Discuss fall back position with potential providers to mitigate impact of any potential delays.	<b>Yellow (material)</b> Likelihood (Green) Impact Assessment (Yellow)

Background documents	<a href="#">Cabinet paper May 2024 – Fleet procurement: joint waste service</a>
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Relevant web links	None
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