

Decision Pathway – Report Template



PURPOSE: Key decision

MEETING: Cabinet

DATE: 04 December 2018

TITLE	Bristol Waste Fleet Renewal		
Ward(s)	All.		
Author: David Lawrence	Job title: Interim Shareholder Liaison Director		
Cabinet lead: Cllr C Cheney	Executive Director lead: Executive Director Resources		
Proposal origin: <i>City Partner</i>			
Decision maker: Cabinet Member Decision forum: <i>Cabinet</i>			
Purpose of Report:			
<ol style="list-style-type: none"> 1. To note BWC's fleet replacement programme as described in this report, 2. To approve the allocation of the Council's resources up to £12m to support the phased replacement of the existing fleet in the form of shareholder's loans and to delegate authority for the approval of the terms of such loans. 3. To note that the proposal for the replacement of the fleet does not preclude leasing options (rather than purchase options) if it can be justified being strategically, operationally and financially beneficial. 4. To note the procurement and award of these contracts are the responsibilities of Bristol Waste Company. 			
Evidence Base:			
<ol style="list-style-type: none"> 1. In 2017, BWC and BCC undertook a review of the current household waste collection methodology to fully inform the future procurement of a new collection vehicle fleet. 2. The nationally endorsed WRAP consistency model was used and 12 different options were identified focusing on differing collection frequencies and methods of collections each of which were evaluated for cost implications, health and safety implications, financial savings, increase in recycling performance, decrease in residual wastes, social inclusion issues and likely public reaction and satisfaction. 3. The results of this exercise and the evaluation were summarized and presented to Cabinet on the 3rd July 2018, leading to the recommendation that there would be no change in recycling waste collection methodology or frequency of collections with the exception that an additional recycling box will be provided to each household to provide additional capacity for recyclables. 4. In respect of the evidence base for the purchase of the new recycling fleet – it is expected that the new fleet will result in a significant reduction in the number of breakdowns that BWC currently experience on a regular basis. The new fleet will also allow for additional material separation and capture. This will increase recycle totals by reducing waste to landfill which will lead to a rise in recycled material percentages and income. 5. The phasing proposed for the vehicle purchase is related to the current condition of the vehicles, with the most urgent requirement being the replacement of the MRCV's (recycling vehicles) due to their advanced age. The next urgent area of action are the refuse vehicles followed by street cleansing vehicles. The latter of which are in a relatively better condition than the rest, and currently pose the least issues with respect to 			

maintenance. These vehicles are also very easy to hire at short notice, and so represent a lesser risk to service disruption than the other Waste collection fleet. It is also hoped that in 12 – 18 months when the street cleansing equipment is ordered, there will a better selection of electric equivalents will be more readily available.

6. Ordering in the 3 tranches specified, also offers the best value for money solution in terms of bulk ordering, whilst at the same time, allows the company to be flexible with respect to delivery of the vehicles, which will be spread out over the year, and opposed to a wholesale replacement in one go. This phasing of vehicle mobilisation within the tranche means that the company can dispose of the vehicles in the worst condition first, and maintain a smooth transition.

Cabinet Member / Officer Recommendations:

1. To note BWC's fleet replacement programme as described in this report,
2. To approve the allocation of the Council's financial resources, up to £12m, to support the phased replacement of the existing fleet by way of shareholder's loans on commercial terms.
3. To delegate to the Service Director Finance, in consultation with the Cabinet Member for Finance, Governance and Performance, authority to set the terms and conditions of the required loans following submission of a satisfactory business case for each tranche of replacement/ investment.
4. To note that the proposal for the replacement of the fleet does not preclude leasing options (rather than purchase options) if this can be justified as being strategically, operationally and financially beneficial.
5. To note the procurement and award of these contracts are the responsibilities of Bristol Waste Company.

Corporate Strategy alignment:

1. The timely delivery of the vehicle replacement programme resulting from this decision shall be in line and compliant with all procurement and financial mechanisms and shall also assist in the achievement of the Councils strategic aims and objectives along with the statutory and non-statutory performance targets stated in all BCC strategic documents and policies.
2. In line with the councils strategy to 'Keep Bristol on course to be run entirely on clean energy by 2050 whilst improving our environment to ensure people enjoy cleaner air, cleaner streets' – the alternative fuels are being examined, however at this stage electric vehicles are not currently at the level needed to fully support the councils waste contract.

City Benefits:

1. Bristol Waste Company (BWC) carry out local recycling, waste collection and street cleansing. They are committed to working in partnership with the people and enterprises of Bristol, to help all communities recycle more and throw away less.
2. The renewal of the recycling fleet aims allow for additional material separation and capture. This will increase recycle totals by reducing waste to landfill which will lead to a rise in recycled material percentages and income.
3. The new fleet will conform to the latest energy and CO2 requisites which will reduce the impact which waste operations have upon CO2 levels within the city.
4. Support the Mayor's clean street campaign

Consultation Details:

1. On the 12th April, Overview and Scrutiny management board were consulted on decision to continue with the kerbside sort collection methodology which has determined the type of waste vehicles which need to be purchased.
2. Consultation has/will be taking place with the Shareholder Group, as well as both Communities (Waste Client) and Resources directorate (Finance) with respect to any specific impacts with respect to procurement of the vehicles on the service, and funding mechanism.

Revenue Cost	Ongoing revenue impact had been included under BWC's approved business plan and contract which is included under the approved MTFP	Source of Revenue Funding	General fund BWC contract
Capital Cost	Up to £12m	Source of Capital Funding	A combination of BWC's own cash from reserves, scrappage proceeds, and BCC loan.
One off cost <input checked="" type="checkbox"/> Ongoing cost <input checked="" type="checkbox"/>		Saving Proposal <input checked="" type="checkbox"/> Income generation proposal <input checked="" type="checkbox"/>	

Required information to be completed by Financial/Legal/ICT/ HR partners:

Finance Advice:

The proposal seeks approval to allocate up to £12m from Council's financial resources to support BWC's fleet replacement programme. The phased purchase of the new fleet is proposed to be funded by shareholder's loans combined with funds from BWC's own cash reserves. The exact amount of the loan finance required will be calculated once the contracts are tendered.

	Asset Life 7 to 10 years
Fleet Type	Number of Assets
Recycling	45
Refuse vehicles	20
Street Scene Vehicles	90
Total fleet Programme	155

Various options had been explored including:

1. Capital purchase with BWC own reserves and loan from BCC.
2. Capital purchase using 3rd party loan funds
3. Leasing options through a 3rd party provider or the Council

Bearing in mind the specs and costs are still under negotiation with the suppliers, the estimates at this stage indicate that option 1 is the most straight-forward and effective option from strategic, financial and operational perspectives. It also takes into account the joint financial implications to the Council and BWC, which include considerations of the accounting of borrowing costs, capital ownership, and corporation tax etc.

The financial implication will be reassessed at the point of the delegated decision making. The term and conditions of the loan provided by the Council will also be set under commercial terms, complying with transfer pricing and state aid requirements.

The net loan financing requirement will also take into account the scrappage proceed and the level of financial contribution from BWC's own cash reserve. For guidance, the interest chargeable to BWC will be based upon the reference rate, defined as 1-year LIBOR (0.997% as at 15th November 2018), +Margins. For illustrative purposes only, the table below summarises the basis for applying the loan margins.

Margins in basis points			
Rating category	Collateralisation		
	High	Normal	Low
Strong (AAA-A)	60	75	100
Good (BBB)	75	100	220

Satisfactory (BB)	100	220	400
Weak (B)	220	400	650
Bad/Financial difficulties (CCC and below)	400	650	1,000

Taking into account the risk free investment return (based on UK gilt yields) for a 5, 10 and 30 year investment, the table below illustrates the range of interests to be charged:

Indicative Interest Rate Charges % p.a.			
Level of Collateral	Term		
	5 year	10 year	30 year
High	2.70	3.00	3.45
Normal	2.85	3.15	3.60
Low	3.10	3.40	3.85

Indicative BCC prudential borrowing rate over 10 year is around 2.2% p.a. indicative BCC net margins based on a forward lending rate of 3.15% on £12m is illustrated in the table below, please note the actual rate of interest chargeable will be reassessed at the point of issuing the loan.

Annuity payment (10 years) £000	BWC Cost p.a.	BCC Cost p.a.	BCC Margin p.a.
Interest charges p.a.	218	150	68
Principal repayment	1,200	1,200	0
Total	1,418	1,350	68

Please see BWC business case for detailed financial analysis and year on year revenue and capital implications. The estimated full year effect of revenue savings for BWC are around £360 p.a. mainly relate to maintenance and hiring cost reductions particularly in the early years. Other operating efficiencies which are difficult to quantify include reduction in landfill, increase in recycling and more efficient use of labour on collection rounds. There will also be some moderate capital savings on spare parts.

The annual net revenue cost (financing cost and depreciation net off savings) had been included under the overall BWC service contract price and business plan approved in January 2018. A revised business plan will be presented to the shareholder and cabinet in due course following the annual business planning cycle.

Finance Business Partner: Tian Ze Hao

Date: 19/10/2018

2. Legal Advice:

Approval of the loans

Cabinet is being asked to approve the provision of loans to BWC for the purchase of a new fleet of vehicles. If approved, BCC Legal Services will draft the loan agreement. In order to protect BCC's loan, and if BWC purchases (rather than leases) the vehicles, it is anticipated that the loan agreements would include provisions to prevent BWC from selling or leasing any vehicles during the term of the loans without BCC's consent, and to require that the vehicles be transferred to BCC in the event of a BWC default. If BWC intends to lease any vehicles, BCC will need to ensure (through the terms of the loan agreements) that it can step into BWC's shoes in the event that the Waste Services Agreement between BCC and BWC is terminated.

If Cabinet approves the Recommendations set out above, the Cabinet Member for Finance, Governance and Performance, (who has delegated authority to take decisions on behalf of the Council as shareholder), may also be required to approve BWC's purchase of the vehicles, in accordance with Reserved Matter 9 of BWC's articles of association (or must approve this as part of the Business Plan). Such approval should be subject to the Service Director Finance, in consultation with the Cabinet Member for Finance, Governance and Performance, approving the terms of any relevant loans. These Reserved Matter decisions are not Cabinet decisions and will be dealt with separately.

State Aid relating to the loans

The Council must ensure that the rates of interest applicable to the loans are a commercial rate. If not the difference may risk constituting state aid.

Additional comments

As noted in Appendix A2, if the loans are approved, BWC must ensure that the contract for the purchase of the vehicles is awarded in line with BWC's procurement policies and must be compliant with the Public Contract Regulations 2015.

The Waste Services Contract provides that on termination, for whatever reason, the vehicles will transfer to the Council.

Legal Team Leader: Eric Andrews, Team Leader, Legal Services, 30 October 2018.

3. Implications on ICT: As a Bristol Waste initiative, there are no direct IT implications for BCC. However, the use of new technologies in or supporting these vehicles may present opportunities for integration with Council systems to, for example, share relevant data. Such opportunities will need to be in compliance with appropriate data legislation and respective policies, but timely engagement with BCC services and IT would help to identify actions to take."

ICT Team Leader: Ian Gale, Head of IT

Date: 12 October 2018.

4. HR Advice: The proposals contained in the business case highlight that the procurement of replacement vehicles provides significant health and safety improvements. This will benefit the workforce at Bristol Waste and mitigate health and safety risks. Bristol Waste will need review and update and review its risk assessment and working practices as the new fleet is introduced and provide training as appropriate. These proposals have no HR implications for the Council.

HR Partner: Mark Williams, Head of Human Resources.

Date: 11 October 2018.

EDM Sign-off	Mike Jackson	Wednesday 17 th October
Cabinet Member sign-off	Cllr Cheney, Cllr Dudd	Wednesday 18 th October
CLB Sign-off	Mike Jackson	Tuesday 23 rd October
For Key Decisions - Mayor's Office sign-off	Mayors Office	Monday 29 th October

Appendix A – Further essential background / detail on the proposal <i>A1. Fleet Renewal - Further detail</i> <i>A2. Bristol Waste Fleet Business Case November 2018</i>	YES
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	NO
Appendix E – Equalities screening / impact assessment of proposal	NO
Appendix F – Eco-impact screening/ impact assessment of proposal	YES
Appendix G – Financial Advice	NO
Appendix H – Legal Advice	NO
Appendix I – Combined Background papers	
Appendix J – Exempt Information	NO
Appendix K – HR advice	NO
Appendix L – ICT	NO