

Executive Agenda



Reigate & Banstead
BOROUGH COUNCIL
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20 November 2018

To the Members of the EXECUTIVE

Councillors:	M. A. Brunt	Leader of the Council
	G. J. Knight	Deputy Leader, Housing and Benefits
	R. H. Ashford	Leisure and Wellbeing
	Mrs. N. J. Bramhall	Property and Acquisitions
	J. E. Durrant	Community Safety
	K. Foreman	Planning Policy
	A. C. J. Horwood	Neighbourhood Services
	E. Humphreys	Business and Economy
	T. Schofield	Finance

For a meeting of the **EXECUTIVE** to be held on **THURSDAY, 29 NOVEMBER 2018** at **7.30 pm** in the New Council Chamber - Town Hall, Reigate.

John Jory
Chief Executive

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Notice is given of the Executive's intention to hold part of its meeting on Thursday, 29 November 2018 in private for consideration of reports containing "exempt" information

1. **MINUTES** (Pages 5 - 12)

To confirm as a correct record the Minutes of the Executive meeting held on 8 November 2018.

2. **APOLOGIES FOR ABSENCE**

To receive any apologies for absence.

3. **DECLARATIONS OF INTEREST**

To receive any declarations of interest.

4. **REPLACEMENT OF THE COUNCIL'S FLEET OF DOMESTIC REFUSE COLLECTION VEHICLES** (Pages 13 - 38)

Executive Member: Portfolio Holder for Neighbourhood Services

To consider replacement of the Council's fleet of domestic refuse collection vehicles.

5. **PROPERTY ACQUISITIONS**

Executive Member: Portfolio Holder for Property and Acquisitions

To consider any property acquisitions proposed including the acquisition of a freehold in Salfords, set out at agenda item 5a.

A. **ACQUISITION OF FREEHOLD IN SALFORDS** (Pages 39 - 42)

To consider the acquisition of a freehold in Salfords.

6. **STATEMENTS**

To receive any statements from the Leader of the Council, Members of the Executive or the Chief Executive.

7. **ANY OTHER URGENT BUSINESS**

To consider any item(s) which, in the opinion of the Chairman, should be considered as a matter of urgency – Local Government Act 1972, Section 100B(4)(b).

(Note: Urgent business must be submitted in writing but may be supplemented by an oral report).

8. **EXEMPT BUSINESS**

RECOMMENDED that members of the Press and public be excluded from the meeting for the following item of business under Section 100A(4) of the Local Government Act 1972 on the grounds that:

- (i) it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act; and
- (ii) the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

9. **PROPERTY ACQUISITIONS (EXEMPT)**

Executive Member: Portfolio Holder for Property and Acquisitions

To consider exempt information in relation to these proposals, including the acquisition of a freehold in Salfords, set out at agenda item 9a.

A. ACQUISITION OF FREEHOLD IN SALFORDS (EXEMPT) (Pages 43 - 46)

To consider exempt information in relation to the acquisition of a freehold in Salfords.

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Agenda Item 1

Executive
8 November 2018

Minutes

BOROUGH OF REIGATE AND BANSTEAD

EXECUTIVE

Minutes of a meeting of the Executive held at the New Council Chamber - Town Hall, Reigate on 8 November 2018 at 7.30 pm.

Present: Councillors M. A. Brunt (Leader), G. J. Knight (Deputy Leader), R. H. Ashford, Mrs. N. J. Bramhall, J. E. Durrant, K. Foreman, A. C. J. Horwood, E. Humphreys and T. Schofield.

Also present: Councillors Mrs. R. Absalom, M. S. Blacker, J. M. Ellacott, J. C. S. Essex, J. P. King, R. C. Newstead, Mrs. R. S. Turner and C. T. H. Whinney.

61. MINUTES

RESOLVED that the Minutes of the Executive meeting held on 18 October 2018 be approved as a correct record and signed.

62. APOLOGIES FOR ABSENCE

Executive Members: None.

Non-Executive Members: Councillor N.D. Harrison and Councillor M.J. Selby.

63. DECLARATIONS OF INTEREST

None.

64. HORLEY HIGH STREET UPDATE

Councillor E. Humphreys, Executive Member for Business and Economy, provided an update on plans to deliver major improvements to the Horley High Street pedestrian precinct.

Councillor Humphreys explained that the Executive, on 13 July 2017, had agreed the scope of the third phase of improvements to create a high quality, attractive and flexible space. It was noted a contractor had been selected and the necessary statutory consents were in place. However, it was highlighted that the total costs of the scheme had exceeded the budget previously agreed by the Executive.

The Executive was informed that while some cost savings had been achieved, additional funding was required to avoid reducing the scope or the quality of the improvements. In response to questions, the Executive Member provided information on the following matters:

- The total budget agreed by Executive in July 2017 was £630,000. This included £530,000 from the Council's capital programme and £100,000 of Section 106 funding from Surrey County Council.
- The total revised budget was £750,000. The Council's contribution remained the same - £530,000. However, Surrey County Council had agreed to contribute up to £220,000 from Section 106 funding.

- Work was expected to start in early January 2019 and would take twenty four weeks to complete.

In conclusion, Councillor Humphreys explained that the provision of comprehensive improvements to the Horley High Street pedestrian precinct would enable the space to be used for a variety of activities and would improve public perception and business confidence, helping to attract visitors and investment to the town centre.

RESOLVED that:

- (i) The progress, made to date, to bring forward the delivery of the third phase of public realm improvement in Horley town centre be noted;
- (ii) The Director of Place be authorised to increase the total budget for the project to £750,000, which would be provided by an additional allocation of funding of £120,000 from Surrey County Council; and
- (iii) The Director of Place be authorised, in consultation with the Executive Member for Business and Economy, to make any further minor changes to the scope of the scheme and terms of the contract within the approved budget.

Reason for decision: On 13 July 2017 Executive agreed the scope for the third phase of public realm improvements to the Horley High Street pedestrian precinct to create a high quality, attractive and flexible space. Since then, and following the appointment of Surrey County Council (Highways Authority) to lead the delivery of the project, the scheme had been fully designed and costed. Unfortunately, despite a number of refinements, the total cost of the scheme exceeded the budget previously agreed by the Executive. As a result, in order to bring forward the scheme, authority was sought to increase the budget. Importantly, Surrey County Council agreed to increase their allocation of Section 106 contributions to the scheme and no additional funding was being sought from the Borough Council's capital programme.

Alternative options: Design and deliver a scaled back scheme within the original budget or defer the delivery of public realm improvements in Horley.

65. DEBT WRITE-OFF AND RECOVERY PERFORMANCE

The Executive Member for Finance, Councillor T. Schofield, proposed that the Executive write off 13 debts. This proposal followed all possible action to recover these amounts.

Councillor Schofield stated that the Council took debt recovery very seriously, that it would work with individuals and companies in difficulty to bring things to a satisfactory conclusion, but that all legal tools would be used to recover the debt until it became impossible or uneconomic to do so.

It was also emphasised that write off was essentially an accounting process to protect the Council against mis-statement of the accounts and that in all cases it was only recommended when all possible avenues had been exhausted. If further information was received or if the circumstances surrounding the debts changed then they would be pursued again.

The Executive noted that despite the proposed write offs; Reigate and Banstead remained a very high performing Council in terms of debt recovery. In support of this, Members were advised that the impact of debt write-off on the Council was a fraction of the total amount incurred. In addition, the Executive Member highlighted that the Council had one of the very best recovery teams in the country.

A Member sought clarification on the actions taken by officers to recover debts owed and raised concerns over the timeline in a number of cases, set out in Annex 1 of the report. Members were assured that the Council performed above average nationally to pursue debts as a priority, as far as possible.

Councillor Schofield informed the Executive that in 2016 the responsibility for recovering Housing Benefit overpayments had been passed to a dedicated team within Revenues and Benefits. It was noted that in just two years the Council had increased recovery by over £200,000 per year and were now in a position where recovery exceeded new debt being generated. It was highlighted that in doing so, the Council had reviewed a number of outstanding debts and this had accounted for the high number of Housing Benefit debts included in the report.

During the discussion a number of issues were considered in relation to statutory duties for local authorities concerning Council Tax collection, the recovery of Housing Benefit overpayments, and the collection of Business Rates. The Head of Revenues, Benefits and Fraud was asked to provide a briefing note to all Members to clarify roles and responsibilities in relation to the process for collecting and recovering taxation monies.

RESOLVED that:

- (i) Thirteen debts totalling £156,362.88 (as detailed in Annex 1 of the Executive's report) be approved for writing out of the Council's accounts; and
- (ii) The performance on debt recovery for 2017/18 and 2018/19 (to date) be noted.

Reason for decision: One of the debts related to National Non Domestic Rates (NNDR or Business Rates), and twelve related to Benefits overpayments. All possible action had been taken to recover these amounts and approval was sought to technically write them out of the accounts.

Alternative options: To not approve the proposed write offs or to accept the report, but ask Officers to provide more detail on some specific issues contained in the report.

66. HALF YEAR TREASURY MANAGEMENT PERFORMANCE REPORT

Councillor T. Schofield, Executive Member for Finance, explained that the purpose of the report was to provide an update on the performance of the Council's treasury management activities. The Executive was informed that the report of the Director of Finance and Organisation formed part of the formal reporting requirements of the CIPFA Code of Practice on Treasury Management.

The Executive Member for Finance highlighted that the Treasury Management performance, up to Period 6, showed, overall, the projected outturn was better than budget. This was primarily due to the borrowing facility not being utilised.

Councillor Schofield went on to provide an update on the Council's Investment Strategy, Borrowing Strategy and Cash Management Strategy. The Executive was informed that whilst there were no changes to any of these strategies it was noted that the Council was in the process of producing a robust Investment Strategy. This was not only for the purposes of meeting the requirements to changes in the prudential code but also to enhance decision support and governance of the capital programme moving forward.

In terms of Prudential Indicators, the following points were noted:

- The Capital Programme and the Capital Financing requirement had been updated to take account of carry forwards and proposed changes to the approved capital plan.
- Under the level of approved expenditure the Council would need to borrow from 2019/20.
- The Borrowing Limits were unchanged from when the Strategy had been adopted earlier in the year.

Councillor Schofield explained that Annex 1 to the report provided an update on economic conditions and expected movements in interest rates. This information had been provided by the Council's advisors, Link Treasury Services.

During the discussion a number of matters were considered, including capital financing for the revised capital programme, the use of reserves and the work that was taking place to develop an Investment Strategy. It was suggested that as part of this, it would be useful to bring forward a comprehensive reserves table in order to highlight sources of capital and revenue reserves and the requirements.

RECOMMENDED that the Treasury Management Performance for the year to date and the prudential indicators be noted.

Reason for decision: To comply with the requirements of the regulatory framework for treasury management and meet the Council's reporting requirements.

Alternative options: Accept the report, but ask Officers to provide more detail on some specific issues contained in the report.

67. SERVICE AND FINANCIAL PLANNING/BUDGET PROPOSAL FOR 2019/20

Councillor T. Schofield introduced the report setting out service and financial planning proposals and the Council Tax Reduction Scheme for 2019/20.

As set out in the report, the Executive Member for Finance highlighted proposals for 2019/20 had been based on a full and robust assessment. It was noted that this work had been carried out by Executive members, supported by the Management Team and a Budget Advisory Working Group.

Councillor Schofield explained the proposals set out in the report would allow for a continuation of high quality services. In recognition of this, it was proposed to move a number of long term established officer posts into the base budget. This would result in an increased budget requirement for 2019/20 but a more sustainable funding structure for future years, with more certainty for staff and service users.

The Executive Member for Finance explained that the budget savings proposed, and income generation forecasts, would more than cover the planned service improvements for 2019/20. However, it was noted that the Council was faced with a short term loss of income until some regeneration and income generation projects came on stream. Combined with the sharp reduction in business rates receipts it was explained that this would mean the Council would likely need to draw on reserves in order to present a balanced budget for 2019/20 to Full Council in February 2019.

In response to questions, it was explained that in recent years the Council had established ring-fenced reserves to respond to this challenge and it was noted that Table 2 of the report summarised the gap and the proposals to deliver a balanced budget. It was also highlighted that the Council had plans in place to replace the use of reserves with new income in the medium term to help ensure a sustainable budget position for the future.

In terms of Council Tax proposals, Councillor Schofield explained that it was always a difficult decision to increase Council Tax. It was highlighted that there would be some concerns about the proposed 2.99% rise and it was noted that the proposals would see the Reigate and Banstead element of a Band D charge increase by 13 pence per week. However, Councillor Schofield outlined that for less than £4.40 a week, residents would benefit from waste and recycling collections, clean streets and award winning open spaces. The Council would also provide leisure and community centres, health and wellbeing services, housing, community development and business support services. In addition, residents would benefit from various regeneration and place improvement activities across the borough, and from statutory services provided, such as planning and environmental health and licencing.

Councillor G.J. Knight, Deputy Leader and Executive Member for Housing and Benefits, went on to introduce the Council Tax Reduction Scheme recommendation.

The Executive was informed that since 2013 Council Tax billing authorities had been required to agree local Council Tax reduction schemes for working age households who were on low incomes, benefits or out of work. It was noted that in recent years the Council had implemented a scheme that:

- Required residents receiving full Council Tax benefit to pay at least 10% of their bill.
- Protected residents who were either disabled or providing care for disabled people.
- Had provisions so residents did not lose out on support when they entered work. It was noted that this was an important principle.

It was also highlighted that households who were genuinely unable to pay their Council Tax were able to receive further discretionary relief should they require it.

Councillor Knight went on to explain that the Council had an opportunity to review this approach annually. It was noted that the current scheme was working well and had not affected the Council's overall collection rate, which remained one of the highest in the country.

Councillor Knight informed the Executive that Council Tax collected from the 3,500 working age households receiving a reduction amounted to under 1% of the total Council Tax liability. It was noted that arrears were only around 0.2% of the total Council Tax liability, which could be collected in subsequent years. With this in mind, Councillor Knight explained that the recommendation was to implement the current scheme, with increases to allowances and premiums applied to reflect cost of living increases.

During the discussion that followed, the Leader, Deputy Leader and Executive Member for Housing and Benefits, and Executive Member for Finance responded to questions on service and financial proposals and the Council Tax Reduction Scheme for 2019/20. It was also noted that the Chairman of the Overview and Scrutiny Committee had invited all non-executive Members to attend the Budget Scrutiny Review Panel meeting, chaired by Councillor N.D. Harrison, on Thursday 22 November 2018.

RECOMMENDED that the local Council Tax Reduction Scheme for 2019/20, outlined in the Executive's report, be adopted.

RESOLVED that:

- (i) The national and local service context, outlined in Annex 1 to the report, be noted.
- (ii) The service proposals, set out in the report and accompanying Annex 2, which seek to respond to the national and local service context and to deliver corporate priorities, be endorsed.
- (iii) The following be approved for consultation under the Council's budget and policy framework:
 - a) Medium Term Financial Plan (Annex 3)
 - b) Savings and income totalling £1.229m (Annex 4)
 - c) Growth totalling £2.620m (Annex 5)
- (iv) The Director of Finance and Organisation be authorised, in consultation with the Leader of the Council, to make any necessary changes to the Corporate Business Plan arising from the service and financial planning changes agreed for 2019/20.

Reason for decision: To ensure that the Council continued to plan and manage its resources well, deliver high standards of service and meet the aims and objectives of the Council's adopted Five Year Plan (2015-2020). The initial local Council Tax Reduction Scheme was introduced from 2013/14 and had been effective in reducing the level of support awarded whilst ensuring vulnerable residents were not penalised unfairly. It was therefore appropriate that this scheme was continued with some changes to reflect increases in the cost of living in line with other benefits and allowances.

Alternative options: In terms of Service and Financial Planning, the following alternative options were available: (i) To only approve some of the proposed budget and financial planning changes set out within the report, for consultation under the terms of the Constitution; or (ii) To reject the proposed budget and financial planning changes set out within the report, and request that further work be

undertaken to develop new proposals for consultation under the terms of the Constitution. In terms of the Council Tax Reduction Scheme, the following alternative options were available: (i) To reduce the level of support. This would reduce the cost to the Council but would likely lead to more households experiencing financial hardship and affect Council Tax recovery rates; or (ii) To increase the level of support payable. This would have a financial cost for the Council and could affect other services provided by the Council.

68. COMPANIES PERFORMANCE UPDATE

Councillor M.A. Brunt, Leader of the Council, introduced a report providing an overview of the performance of companies owned or part-owned by the Council. It was explained that this was the first of such updates and moving forward the Executive and Overview and Scrutiny Committee would both receive six monthly updates on performance. It was noted that these companies, as of October 2018, consisted of Greensand Holdings Ltd, Horley Business Park Development LLP, Pathway for Care Ltd and RBBC Ltd.

The Leader of the Council explained that an update, on companies performance, had been considered by the Overview and Scrutiny Committee on 11 October 2018. It was noted these discussions had been summarised in the Executive's report, including an update on risk management considerations relating to the Council's investments in each company.

In response to questions about governance the Executive was informed that, in accordance with an Executive Resolution from 29 March 2018, a Commercial Governance Member Task Group had been established to review the commercial arrangements established by the Council in recent years. Councillor Brunt explained that this Task Group was progressing well and was on course to complete its work by the end of 2018. It was also noted that findings from the review would be shared with the Overview and Scrutiny Committee before final recommendations were anticipated to be presented to the Executive in January 2019.

During the discussion a variety of matters were considered and it was noted that additional information had been set out in the exempt Part 2 report of the agenda.

Clerk's note – *At this point in the meeting agenda item 8 (Companies Performance Update) was adjourned so that the exempt information, agenda item 12 (Exempt Business) and 13 (Companies Performance Update – Exempt), could be considered ahead of making a decision.*

Clerk's note – *The minutes of the meeting reflect the order of business listed on the published agenda, not the order taken during the meeting.*

During the exempt discussion a number of issues were considered, including the presentation of performance information and data, the importance of transparency, and matters in relation to the business plans for each company. In response to this discussion, it was highlighted that future updates would include performance information on the business plan targets for each company owned, or part-owned, by the Council.

RESOLVED that the performance of companies owned, or part owned, by the Council be noted.

Reason for decision: To consider the performance of companies owned or part owned by the Council, as of October 2018.

Alternative options: To ask officers to provide additional information to assist consideration of the performance of companies owned, or part-owned, by the Council as of October 2018.

69. PROPERTY ACQUISITIONS

There was no business to be considered under this agenda item.

70. STATEMENTS

None.

71. ANY OTHER URGENT BUSINESS

None.

72. EXEMPT BUSINESS

RESOLVED that members of the press and public be excluded from the meeting for agenda item 13 (Companies Performance Update - Exempt) under Section 100A(4) of the Local Government Act 1972 on the grounds that: (i) it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act; and (ii) the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

73. COMPANIES PERFORMANCE UPDATE (EXEMPT)

RESOLVED that the exempt information in relation to the performance of companies owned, or part owned, by the Council be noted.

74. PROPERTY ACQUISITIONS (EXEMPT)

There was no exempt business to be considered under this agenda item.

The Meeting closed at 8.34 pm

Agenda Item 4

Executive
29 November 2018

Agenda Item: 4
Replacement of the Council's Fleet of Domestic
Refuse Collection Vehicles



Reigate & Banstead
BOROUGH COUNCIL
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REPORT OF:	STRATEGIC HEAD OF NEIGHBOURHOOD OPERATIONS
AUTHOR:	Luke Harvey
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TO:	EXECUTIVE
DATE:	29 NOVEMBER 2018
EXECUTIVE MEMBER:	COUNCILLOR A. HORWOOD

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	ALL

SUBJECT:	REPLACEMENT OF THE COUNCIL'S FLEET OF DOMESTIC REFUSE COLLECTION VEHICLES
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RECOMMENDATIONS:

- (i) That the Executive recognise that the Council's current fleet of domestic refuse collection vehicles is approaching the end of its economical service life.
- (ii) That the Council purchase new vehicles over a period of three financial years, concluding in 2021/22, supported by the refurbishment of vehicles from the current fleet (Option 2).
- (iii) That, in pursuance of recommendation (ii), financial provision be made as follows:
 - Include within the Council's capital programme planning the sum total of £600k in financial year 2019/20 to fund the initial purchase of three new vehicles.
 - Include within the Council's capital programme planning the sum total of £120k in financial years 2019/20, 2020/21 and 2021/22 to fund a refurbishment programme of vehicles from the current fleet.
 - Include within the Council's capital programme planning the sum total of £1.5 million in financial years 2020/21 and 2021/22 (£3 million total across these two financial years) to fund the purchase of up to fourteen new vehicles.
- (iv) That the Strategic Head of Neighbourhood Operations be authorised, in consultation with the Leader of the Council and Executive Member for Neighbourhood Services, to make revisions to the replacement options and approach within the agreed budget as required.

REASONS FOR RECOMMENDATIONS:

To continue to deliver a cost effective, robust and legally compliant domestic refuse collection service for the borough's residents.

EXECUTIVE SUMMARY:

The Council operates a fleet of refuse collection vehicles (RCVs) that provide the statutory collection of waste and recycling from the borough's domestic properties.

The fleet of vehicles providing this service are close to the end of their economical service life. In the last year the fleet has been afflicted by a variety of maintenance issues and a concurrent reduction in its availability; a significant increase in maintenance costs has resulted, as has the need to acquire vehicles on temporary spot-hire arrangements in order to deliver the service. As the fleet continues to age further deterioration is inevitable.

The acquisition of a new fleet to undertake the Council's statutory waste collection duty is therefore required to safeguard continued efficient service delivery.

An options appraisal (see annexe 1) was recently undertaken to ascertain the most cost effective option for replacing the fleet. The upshot of this exercise was that:

1. Alternatively fuelled vehicles are not currently commercially viable;
2. Refurbishing the entire fleet was uneconomical; and,
3. Capital purchase and in-house maintenance is the most cost effective option for replacing and continued operation of the fleet.

This report consequently recommends that the Council should replace its fleet of RCVs through capital purchase over a period of three years, with this supported by the refurbishment of vehicles from the current fleet (Option 2).

This approach will ensure that the Council continues to deliver this statutory service in a cost effective and legally compliant manner.

Executive has the authority to approve recommendations (i), (ii) and (iv). Full Council is required to approve recommendation (iii).

STATUTORY POWERS

1. The Council is the statutory Waste Collection Authority (WCA) for the borough. The Environmental Protection Act (1990) created a statutory duty for WCAs to arrange for the collection of household waste within their area.
2. Surrey County Council (SCC) is the statutory Waste Disposal Authority (WDA) and is responsible for disposal of the waste that Reigate and Banstead Borough Council (RBBC) collects at the kerbside.

3. Section 48 of the Environmental Protection Act (1990) makes provision for collection authorities to retain waste for the purpose of recycling. Since the Act came into effect the recycling obligations of authorities have increased significantly.
4. The Waste Framework Directive (2008) introduced a target for 50% of waste to be recycled by 2020. If this target is missed there are provisions within the Localism Act (2011) for fines levied by the European Union (EU) to be handed down to local authorities.
5. Since January 2015 the Waste Framework Directive has required WCAs to provide separate collection of paper, plastics, metal and glass in order to facilitate greater levels of recycling where this is technically, environmentally and economically practicable (TEEP).
6. The Council's refuse and recycling service is fully compliant with the Waste Framework Directive and the current fleet is configured accordingly.
7. Revisions to the Waste Framework Directive were recently ratified by the European Council. The revisions include more stringent municipal recycling targets, specific targets on the recycling of product packaging, new separate collection rules and mandatory separate bio-waste collections, amongst others.
8. The European Union (Withdrawal) Act (2018) will repeal the European Communities Act (1972) – the principal instrument through which EU law and regulations are incorporated into national legislation – on March 29 2019, the day that the United Kingdom (UK) will leave the EU. The Act reimports (or 'onshores') into UK domestic law as 'retained EU law' most EU derived laws that applied in the UK immediately before the day of exit.
9. All EU waste legislation will therefore remain in force in the UK following EU withdrawal. The Government will be able to repeal or amend this law after March 29 2019 unless the UK seeks membership of the European Economic Area (EEA) or otherwise makes specific commitments to apply such law as part of negotiating new trade arrangements with the EU.

BACKGROUND

10. The Council operates a fleet of seventeen RCVs that collect recycling and refuse from the borough's residential properties. A separate fleet delivers the Council's Garden Waste and commercial waste services.
11. The Council operates this as an in-house service, with vehicle maintenance also taking place in-house.
12. The vehicles have entered their seventh year of operation and are fast approaching the end of their economical service life. Over the last year and a half the fleet has been afflicted by a variety of maintenance issues primarily associated with its advancing age. As a result, maintenance costs have increased significantly.
13. The increase in maintenance issues has also resulted in a decrease in fleet availability as such issues have become more complex and difficult to resolve. In order to continue to deliver the service the Council has been required to temporarily acquire vehicles on expensive short-term hire arrangements.
14. The fleet of vehicles operating the service therefore require imminent replacement.

15. On 13 September 2018 Executive approved the roll-out of the Council's recycling service to circa 4,000 flats that hitherto have not received a full recycling service. This service expansion is significant and is fundamentally predicated upon the Council operating a fully functional and robust fleet of RCVs.
16. An options appraisal was recently undertaken to ascertain the most cost effective option for replacing the fleet and has been utilised in drafting this report.

KEY INFORMATION

The current fleet and scope of replacement

17. This paper is concerned with the replacement of the fleet of vehicles that collects refuse from the borough's residential properties; the Council's existing capital programme for fleet replacement includes provision for the replacement of vehicles servicing garden waste and commercial waste customers.
18. The fleet is comprised of the following vehicles:

Vehicle type	Quantity
26 tonne Twinpack	14
15 tonne Twinpack	3

19. A like for like replacement of these vehicles is required and will ensure a resilient, robust and legally compliant refuse collection service for the borough's residents.

Approach to replacement

20. This report recommends that the Council should replace elements of its fleet over a period of three years, with this replacement programme being supported by the refurbishment of vehicles from the existing fleet in order to extend their service life.
21. Refurbished vehicles have a limited lifespan which is likely to be no longer than 2 years. Thus, the refurbishment of vehicles does not remove the need to ultimately replace such vehicles but instead delays the date of replacement.
22. To date the Council has not operated refurbished vehicles in its fleet, however Members have expressed a strong interest in refurbishment in order to maximise the life of those vehicles from the current fleet deemed viable for continued operation following refurbishment.
23. This programme of replacement and refurbishment will take place across financial years 2019/20-2021/22, the upshot of which is that by the end of the programme the current fleet will have largely been replaced.
24. The chief advantage of this staggered approach to replacement is that it spreads the cost of replacement over three financial years and similarly avoids having vehicle warranties expiring simultaneously. The three year time frame also grants the Council the ability to be flexible in the specification of the vehicles it acquires.

25. It is intended that future replacement will likewise take place in a staggered manner, with the approach suggested at this juncture supporting a move towards the rolling replacement of three vehicles per year. The advantage of rolling replacement is that it avoids the significant upfront cost of replacing the entire fleet and similarly avoids the warranties of multiple vehicles expiring simultaneously.
26. The condition of vehicles in the current fleet varies significantly, where some vehicles are closer to the end of their economical service life than others. It is therefore proposed that in the first year of the replacement programme (2019/20) the Council should purchase three new RCVs to relieve pressure on the current fleet's availability and, upon delivery of these vehicles, commence the aforementioned refurbishment programme
27. It will take at least six months from placing an order for new vehicles to be delivered. Preparations for undertaking a procurement exercise for purchasing vehicles will take approximately three months, meaning that the Council will be in a position to make its first order for new vehicles in April 2019, with delivery taking place in circa October 2019.
28. £120k has been identified as being necessary to fund a refurbishment programme each year for three consecutive years, starting in financial year 2019/20. As the condition of the vehicles in the current fleet varies greatly, it is difficult to accurately quantify how many vehicles can be refurbished for this sum as the cost is dependent on the condition of the vehicle. It is expected, however, that £120k is sufficient to refurbish at least 2 and possibly 3 vehicles.
29. A further £1.5 million is requested in years two (2020/21) and three (2021/22) to fund the purchase of up to fourteen remaining vehicles. The actual number of vehicles requiring replacement is partly dependant on the effectiveness of the refurbishment programme.
30. The timescales for vehicle purchases in years 2020/21 and 2021/22 are not currently known, though one year is expected to be sufficient to make preparations for a procurement exercise and to receive delivery of the new vehicles.
31. The table below provides a summary of the capital expenditure associated with the replacement-refurbishment programme:

	2019/20	2020/21	2021/22
Replacement	Three vehicles Total: £600k	Up to Seven vehicles Total: £1.5 million	Up to Seven vehicles Total: £1.5 million
Refurbishment	Three vehicles Total: £120k	Total: £120k	Total: £120k

Refurbishment

32. An RCV remanufacturer was recently commissioned to provide a quotation to refurbish an indicative vehicle from the Council's fleet. The quotation covers work required to the vehicles' hydraulic lifting systems and electronics, as well as bodywork repairs.

33. The quotation received from the remanufacturer shows that to refurbish each vehicle will cost a minimum of £36,000 (£50,000 being the maximum likely to be spent on any single vehicle refurbishment).
34. It is important to note that this is an indicative sum that was arrived at following a limited inspection. The condition of each vehicle within the current fleet varies greatly and many issues – such as chassis corrosion – are only identifiable following dismantling and further examination. Chassis repairs can be very expensive, particularly if there are underlying issues with rust and corrosion. Other repairs, such as those to the vehicles' internal compartments, are not covered by the quotation and, depending on the vehicles' condition, could prove to be expensive.
35. The latter therefore makes it difficult to accurately gauge and quantify the cost for refurbishing each vehicle; the refurbishment cost per vehicle could therefore be in excess of £36,000 (estimated to be up to £50,000) and may also include other works required that are not covered by the remanufacturer's quote.
36. As noted, it is unlikely that a refurbished vehicle will be able to remain in service for more than 2 years and will only be in warranty for the first year of service.
37. Refurbishment will also not include any mechanical repairs which the Council will continue to be required to undertake. Such costs will likely increase as the vehicles continue to age and mechanical faults become more common and expensive to repair. Moreover, once refurbishment has been completed serious mechanical failures (such as engine failure) could still occur, therefore risking the loss of the capital sum invested in refurbishment.
38. In addition, whilst vehicles are out of service with complex mechanical faults the Council will be required to acquire replacements to meet operational needs on short-term spot hire arrangements; this currently costs circa £1,070 per week per vehicle.
39. It will take approximately six weeks for a vehicle to be refurbished and returned to the Council. Owing to operational requirements the service is unable to release more than one vehicle at any one time. Whilst each vehicle is being refurbished the Council will be required to acquire a temporary replacement in order to meet operational demands. The spot hiring of vehicles add approximately £6,500 to the cost of each refurbishment.
40. It is also highly likely that the condition of the vehicles awaiting refurbishment but still in operation will continue to deteriorate, with urgent, unplanned maintenance consequently being required as well as the concurrent need to acquire vehicles to meet such gaps in operational capacity.
41. Refurbishment will therefore cost – at a minimum – circa £42,000 per vehicle. This figure includes the cost of refurbishment and the need to hire vehicles where necessary.
42. The performance of refurbished vehicles will be rigorously monitored, with such performance informing the decisions around refurbishing subsequent vehicles.
43. Those vehicles deemed not viable for refurbishment – based on the cost and/or condition – will not be refurbished.
44. There is therefore a degree of uncertainty and risk associated with the refurbishment of vehicles from the current fleet, though it is expected that the identified figure of £120k is sufficient to refurbish at least two vehicles per year.

45. The latter notwithstanding, the proposed approach will grant the Council flexibility in replacing its fleet and will ensure that the refuse and recycling service it delivers remains cost effective, robust and fully legally compliant. Option 2 is therefore recommended on this basis.

Alternative fuels

46. As a responsible WCA it is incumbent upon the Council to explore the possibility of operating RCVs that use alternative fuels in order to reduce emissions and help protect the environment and the borough's air quality.
47. An options appraisal was recently undertaken to ascertain the most cost effective option for replacing the fleet – this exercise also considered whether alternatively fuelled vehicles are commercially viable.
48. RCVs are heavy, operate on a stop-start cycle, and likewise lift heavy bins. As such, they require significant amounts of energy to operate which has traditionally come from a diesel engine.
49. Diesel has received negative media and governmental attention in recent years due in large part to the emissions scandal which implicated a number of global vehicle manufacturers.
50. The Council's current fleet of RCVs are diesel powered and adhere to Euro V emission standards. Since the Council took delivery of its current fleet, Euro V has been superseded by Euro VI. Euro VI engines are significantly cleaner than Euro V, with the move to Euro VI resulting in large reductions in emissions of harmful particulates and a more robust testing regime to ensure compliance.
51. There are three alternatives to diesel engines which have been explored: (1) Fully electric; (2) compressed natural gas (CNG); and (3) hybrid vehicles (combining diesel and electric).
52. Notwithstanding the fact that the market for alternatively fuelled RCVs has developed in recent years alternative fuel options are at present not commercially viable in comparison to modern diesel engines. Indeed, the alternatives to diesel engines are significantly more expensive, both in the costs of acquiring the vehicles but also in installing the necessary infrastructure required for their operation.
53. Thus, whilst alternatively fuelled vehicles are not commercially viable at present, technological advance means that in subsequent years this position may well be different and will therefore be kept under close consideration.

OPTIONS

54. In replacing its fleet the options available to the Council are as follows:
55. **Option 1:** outright capital purchase and in-house maintenance of a new fleet, with the capital expenditure incurred in one financial year (2019/20).
56. **Option 2:** outright capital purchase and in-house maintenance supported by the refurbishment of existing vehicles deemed viable to do so, with the capital expenditure incurred across financial years 2019/20, 2020/21 and 2021/22 (recommended).

57. **Option 3:** contract hire of a new fleet of vehicles, with maintenance undertaken in-house.
58. **Option 4:** contract hire of a new fleet of vehicles, with outsourced maintenance.
59. The recently undertaken options appraisal found that contract hire (options 3 and 4) is significantly more expensive than capital purchase and is therefore not recommended.

LEGAL IMPLICATIONS

60. The legal implications of this report mainly relate to procurement.
61. The procurement of the new fleet will take place through the NEPO Framework (Lot 2). The Council will work alongside an external organisation – The Procurement Partnership (TPPL) – who will run a Further Competition (mini) on the Council's behalf. The NEPO framework makes available a wide range of heavy goods and specialist vehicles for competitive prices and therefore offers the greatest scope for achieving cost efficiencies.
62. In order to achieve best value for money three Further Competitions will be run which correspond to the three tranche approach to replacement. This will also grant the Council flexibility in the specification of the vehicles it acquires.
63. Each procurement tranche will take approximately 3 months to complete, with the delivery of vehicles taking place approximately 6 months thereafter.
64. It will be necessary to procure a specialist supplier to undertake refurbishment; there are a limited number of contractors capable of undertaking such work.
65. It is a matter for the Council to decide how it complies with its statutory duty with regard to waste collection. All the options in this report will allow the Council to meet its statutory duty.

FINANCIAL IMPLICATIONS

66. It is important to note that the exact costs for acquiring a new fleet of domestic RCVs – for both capital purchase and contract hire – will only be known following the completion of a competitive procurement exercise. As such, it is only possible at this stage to identify indicative – though nevertheless robust – costs for replacing the fleet.
67. As noted above, an options appraisal was recently undertaken to ascertain the most cost effective option for replacing and operating a new fleet of domestic RCVs. The options appraisal found that the capital purchase and in-house maintenance was the most cost effective option for acquiring and maintaining a new fleet of vehicles whilst simultaneously ensuring a resilient, robust and legally compliant refuse and recycling collection service for the borough's residents.
68. It should be noted that should prices for RCVs increase in light of possible market fluctuations, such increases will be commensurate for both options of acquisition (outright purchase and contract hire) and does not therefore change the relative cost attractiveness of outright purchase.

Option 1

69. The estimated capital cost to acquire a new fleet of the required specification and quantity as detailed above is in the region of £3.2 – £3.6 million.
70. Depreciation is to zero over a period of six years. The Council will fund the purchase of the vehicles from its reserves.
71. As the fleet is a like for like replacement, the current revenue budget required to operate and service the vehicles remains unchanged under option 1. As such, there are no revenue budget implications resulting from option 1.

Option 2 (recommended)

72. As with option 1, the current estimated capital cost to acquire a new fleet is in the region of £3.2 – £3.6 million.
73. The Council will fund the purchase of the vehicles from its reserves.
74. However, and as noted above, acquisition under this option will be spread across three financial years, with three new vehicles acquired in 2019/20 and up to seven in both 2020/21 and 2021/22.
75. The above therefore requires £600k in 2019/20 and £1.5 million in both 2020/21 and 2021/22.
76. The spreading of expenditure across three years increases the possibility of exposure to price fluctuations in the RCV market, though the impact of this is difficult to quantify with certainty at present. This therefore shows the importance of a budgeted contingency.
77. In order to acquire vehicles over three years option 2 also requires the refurbishment of some vehicles deemed viable for refurbishment. The capital sum of £120k for years 2019/20-2021/22 is required in order to fund this refurbishment.
78. Refurbishment cannot be funded from the service's revenue budget.
79. As refurbishment does not include mechanical works and refurbished vehicles are older and subject to increased risk of breakdown, refurbished vehicles will cost more to maintain than their newer equivalents. This will therefore have revenue budget implications, though this is difficult to quantify with certainty. Whilst this will be kept under review, it is not recommended that the service's revenue budget should be increased to reflect this.
80. Moreover, and as noted above, refurbishment will require the Council to acquire vehicles on temporary spot-hire arrangements to cover the periods where the vehicles are away and are being refurbished. This will have revenue budget implication but it is not recommended that the service's revenue budget should be increased to reflect this.

Option 3

81. The recently undertaken options appraisal found that contract hire with in-house maintenance will cost in the region of £4 million over the six year life of the fleet. This option is more expensive than outright capital purchase and is therefore not recommended.
82. This option would have revenue budget implications, with the total cost spread over six years.

Option 4

83. The recently undertaken options appraisal found that contract hire with outsourced maintenance will cost in the region of £4.3 million over the six year life of the fleet. This option is more expensive than outright capital purchase and is therefore not recommended.
84. This option would have revenue budget implications, with the total cost spread over six years.

Recycling credits

85. As the WCA for the borough, the Council currently receives recycling credits from SCC in its capacity as the waste disposal authority. SCC has recently proposed the abolition of recycling credits and the introduction of a new formula to distribute funding to the WCAs in Surrey. Recycling credits are payments made by the WDA to the WCA in order to incentivise increased recycling, particularly where without such payments collection would not be commercially viable.
86. Whilst the Council has clarity on the budgetary impacts of such changes up to 2020/21, uncertainty remains beyond this date. It is possible, therefore, that the Council's budgetary position could worsen as a result of the new funding formula.
87. Whilst it is not possible – nor indeed desirable – to alter the materials that are collected, there is possible scope for altering the way in which these materials are handled to reduce operational costs, particularly if the settlement reached with SCC after 2020/21 is injurious to the Council's financial position.
88. In this vein, the recommended approach to replacement will grant the Council significant flexibility in its approach to procurement, thereby ensuring that the configuration of the acquired vehicles is appropriately balanced against the financial settlement reached with SCC and the duties of being the borough's statutory WCA.

EQUALITIES IMPLICATIONS

89. There are no equalities implications resulting from this report.

COMMUNICATION IMPLICATIONS

90. There are no communications implications resulting from this report.

RISK MANAGEMENT CONSIDERATIONS

91. There are a number of risks associated with replacing the Council's fleet.
92. If the UK leaves the EU on 29 March 2019 without a deal the free circulation of goods between the UK and EU will cease. According to the Government's recently released technical notices on trade, this would mean that customs and excise rules would be applied to goods moving between the UK and EU, thereby resulting in import and export delays as well as an increase in costs as tariffs are applied on goods.

93. Manufacturing supply chains are tightly integrated, with the constituent components of RCVs moving between the UK and EU many times before their final assembly. This close integration of supply chains, coupled with the risk of the imposition of customs and excise rules, could therefore result in significantly increased costs for purchasing the required vehicles as well as a significant delay in their delivery to the Council.
94. To mitigate the Council will continue to monitor the situation alongside our procurement partners. The Council should be prepared to move quickly in placing orders for the new vehicles and should avoid unnecessary delay.
95. In addition, the current fleet will continue to age whilst the procurement process is undertaken. The vehicles' increasing age means that maintenance costs will continue to be high and vehicle failure is more likely. Reputational damage will be caused to the Council and resident's dissatisfaction with our waste services will be a likely consequence. This will also result in the Council being required to acquire vehicles on expensive spot hire arrangements to meet operational demands. The latter is underscored by the fact that the Council will not have taken delivery of the final tranche of vehicles until early 2020.
96. The Council's ageing fleet is also managed on the operational risk register.
97. The proposed changes to the recycling credits formula are managed on the Council's strategic risk register. The Council continues to be an active participant within the Surrey Waste Partnership – the forum comprised of Surrey's ten other WCAs and the County Council – and will be closely involved in the development of future proposals with a view to achieving an equitable financial settlement.

OTHER IMPLICATIONS

98. There are no other implications resulting from this report.

CONSULTATION

99. The Leader and Executive Member for Neighbourhood Services have been briefed during the preparation of this report.
100. There are no further consultation implications resulting from this report.

POLICY FRAMEWORK

101. Whilst the Council's Five Year Plan (2015-20) does not include a specific priority for management of waste, a key pillar of the Council's overarching vision is to deliver quality services and value for money for residents. The acquisition of a new fleet of domestic RCVs on the basis recommended by this report is conducive to the pursuit of this goal.

Background Papers: None

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Fleet replacement: options appraisal (October 2018)

Version control		
Version	Date	Description
1	10/10/2018	Initial version.

Introduction

- 1 Reigate and Banstead Borough Council ('the Council') operates a fleet of refuse collection vehicles (RCVs) that provide the statutory collection of recycling and refuse from the borough's domestic properties.
- 2 The fleet of vehicles providing this service have entered their seventh year of operation and are close to the end of their economical service life. In the last year the fleet's age has resulted in a significant increase in maintenance costs and a concurrent reduction in its availability. As the fleet continues to age further deterioration will become increasingly likely. As well as an increase in maintenance costs, further fleet deterioration will result in the need for the Council to temporarily lease vehicles on expensive, short-term spot hire arrangements.
- 3 The procurement of a new fleet to undertake the Council's statutory waste collection is therefore required. A new fleet will enable the Council to continue to deliver this important statutory service for the residents of the borough in a cost effective and efficient way.
- 4 There are a variety of options for replacing the Council's fleet of domestic RCVs. This paper presents an appraisal of these options, which are as follows:
 1. Outright capital purchase;
 2. Contract hire; and,
 3. Refurbishment of the existing fleet.
- 5 The possibility of procuring a fleet of alternatively fuelled vehicles is also considered. This paper concludes, however, that alternatively fuelled RCVs are not currently commercially viable.
- 6 In summary, this report recommends that the Council should outright purchase and maintain in-house the RCVs necessary to deliver the borough's domestic refuse collection service. This is the most cost effective option for fleet replacement and will ensure a resilient and robust refuse collection service in the years ahead.

Background

- 7 The Council is the statutory Waste Collection Authority (WCA) for the borough of Reigate and Banstead, whilst Surrey County Council is the statutory Waste Disposal Authority (WDA). The Environmental Protection Act (1990) created a statutory duty for WCAs to arrange for the collection of household waste within their area, whilst WDAs are responsible for the disposal of this waste.
- 8 The Council provides a recycling and refuse collection service to over sixty thousand properties in the borough of Reigate and Banstead. The Council is currently ranked within the top ten percent of authorities in the country for recycling performance and is committed to improving this performance still further.
- 9 The Council's policy is to continue to deliver domestic waste collection as an in-house service. As such, the possibility of outsourcing the service has not been considered in this options appraisal.

Legislative and regulatory context

- 10 Section 48 of the Environmental Protection Act (1990) makes provision for authorities to retain waste for the purposes of recycling. Since the Act came into effect the recycling obligations of authorities have increased significantly. The Waste Framework Directive (2008) introduced a target on local authorities to recycle 50% of waste by 2020.¹ If recycling targets are missed there are provisions in the Localism Act (2011) for fines levied by the European Union (EU) to be handed down to local authorities.
- 11 Since January 2015 the Waste Framework Directive has required WCAs to provide separate collection of paper, plastics, metal and glass in order to facilitate greater levels of recycling. England's WCAs are obliged to provide separate collections where they are technically, environmentally and economically practicable (TEEP). The Council's recycling service is fully compliant with the Waste Framework Directive and the current fleet of RCVs is configured accordingly.
- 12 Revisions to the Waste Framework Directive were recently ratified by the European Council. The revisions include more stringent municipal waste recycling targets, specific targets on the recycling of product packaging, new separate collection rules and mandatory separate bio-waste collections, amongst others.²
- 13 The European Union (Withdrawal) Act 2018 will repeal the European Communities Act (1972) – the principal instrument through which EU law and regulations are incorporated into national legislation – on March 29 2019, the day that the United Kingdom (UK) will leave the EU. The Act reimports (or 'onshores') into UK domestic law as 'retained EU law' most EU derived laws that applied in the UK immediately before the day of exit.
- 14 All EU waste legislation will therefore remain in force in the UK following EU withdrawal. The Government will be able to repeal or amend this law after March 29 2019 unless the UK seeks membership of the European Economic Area (EEA) or

¹ <http://www.legislation.gov.uk/uksi/2011/988/contents/made>

² http://europa.eu/rapid/press-release_IP-18-3846_en.htm

otherwise makes specific commitments to apply such law as part of negotiating new trade arrangements with the EU.

- 15 It is therefore highly unlikely that the recycling and waste duties of authorities will reduce in the years ahead. To the contrary, such duties will likely increase, particularly in light of the recent public attention on the prevalence of single use plastics and other important environmental issues. Moreover, as a responsible WCA the Council is committed to the handling and processing of refuse and recycling in an environmentally sustainable manner that maximises recycling.
- 16 In its capacity as the WDA for Surrey, Surrey County Council has recently proposed the abolition of recycling credits and the introduction of a new formula to distribute funding to the WCAs in Surrey. Recycling credits are payments made by the WDA to the WCA in order to incentivise increased recycling, particularly where without such payments collection would not be commercially viable.
- 17 Whilst the Council has clarity on the budgetary impact of such changes up to 2020/21, uncertainty on the levels of payments remains beyond this date. It is possible, therefore, that the Council's budgetary position could worsen as a result of the new funding formula.
- 18 The Council continues to be an active participant in the Surrey Waste Partnership (SWP) – the forum comprised of Surrey's ten other WCAs and the County Council – and will be closely involved in the development of future proposals in order to ensure an equitable financial settlement.
- 19 This uncertainty on funding and Brexit notwithstanding, the Council, in its capacity as the statutory WCA for the borough, will continue to require a fleet of RCVs that collect the required domestic waste streams in a manner that is fully compliant with all necessary legislation, the requirements of which are unlikely to reduce in the years ahead.
- 20 Whilst it is not possible – nor indeed desirable – to alter the materials that are collected, there is possible scope for altering the way in which these materials are handled to reduce operational costs, particularly if the settlement that is reached with Surrey County Council after 2020/21 is injurious to this Council's financial position. In this vein, the three tranche approach to fleet replacement that is recommended (see below) will grant the Council significant flexibility in its approach to procurement, thereby ensuring that the configuration of the acquired vehicles is appropriately balanced against the financial settlement reached with Surrey County Council and the duties of being the borough's statutory WCA.

The current fleet

- 21 The Council operates a fleet of seventeen RCVs that solely collect recycling and waste from the borough's residential properties; a separate fleet delivers the Council's Garden Waste and commercial waste services.
- 22 This paper is concerned with the replacement of the fleet of vehicles that collects refuse from the borough's residential properties; the Council's existing capital programme for fleet replacement includes provision for the replacement of vehicles

servicing Garden Waste and commercial waste customers along with other plant and equipment.

- 23 The current fleet is optimally configured in order to handle all waste streams in the statutory manner required. This involves the separate handling of certain waste streams which is achieved by refuse trucks having two internal compartments and bin lifts. Figure 1 provides a breakdown of the composition of the current fleet of domestic RCVs:

Vehicle type	Quantity
26 tonne Twinpack	14
15 tonne Twinpack	3

Figure 1 – composition of the Council's current fleet

- 24 The vehicles have entered their seventh year of operation and are fast approaching the end of their economical service life. Indeed, over the last year and a half the fleet has been afflicted by a variety of maintenance issues primarily associated with its increasing age. As a result, maintenance costs have increased significantly and have contributed to recent overspends in the fleet budget. The current fleet's historic maintenance costs are shown in figure 2.

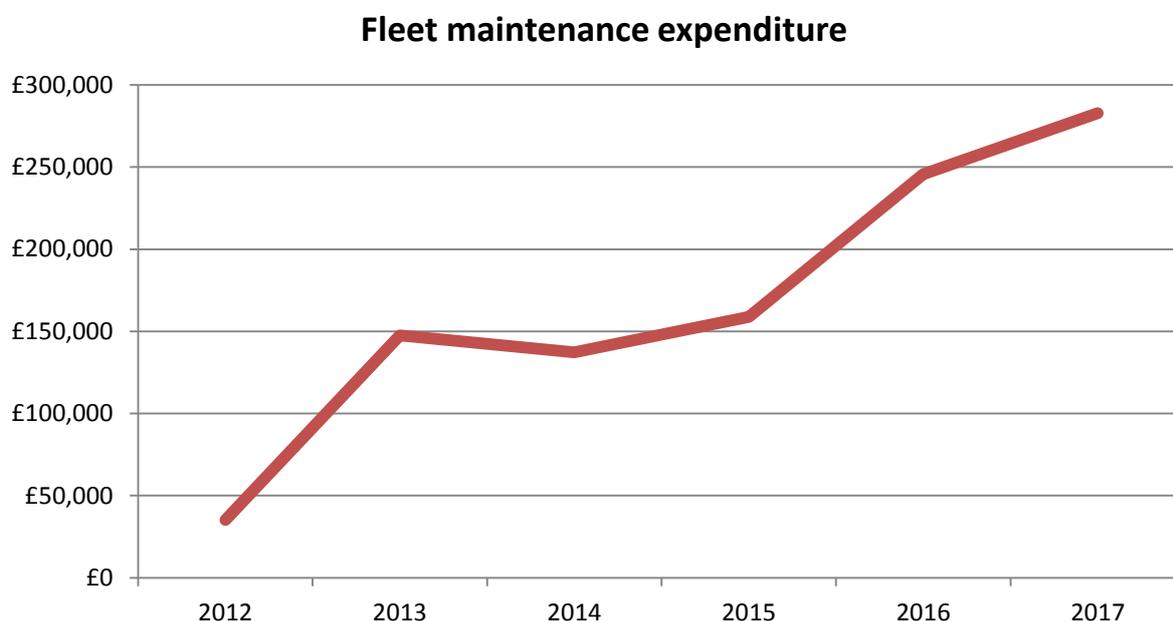


Figure 2 – Fleet maintenance expenditure³

- 25 In addition to increased maintenance costs, the fleet's advancing age has resulted in an increase in downtime as maintenance issues become more complex and

³ Includes all costs incurred in maintaining the fleet, including parts and labour. These costs do not include usual consumables such as fuel, tyres and lubricants. Maintenance costs increase significantly after year 3 as this is when the vehicles' manufacturer's warranty expires.

expensive to resolve. To illustrate, in Q1 2018/19 the fleet's availability was 86% which stands in contrast to the industry standard of 95%. The fleet's reduced availability has resulted in the need for the Council to temporarily lease vehicles on expensive, short-term spot hire arrangements in order to continue to collect refuse. The spot hire of such vehicles costs the Council circa £1,070 per week; since January 2017 over £41,000 has been spent on the spot hire of RCVs.

- 26 Whilst the situation is currently manageable, it is not sustainable in the long-term. Indeed, as the fleet continues to age its condition and concurrent availability will continue to deteriorate, with the trend of increased maintenance and the resultant need to spot hire vehicles continuing and perhaps gathering apace as the current fleet becomes irreparable.
- 27 The procurement of a new fleet of refuse collection vehicles is therefore required in order for the Council to continue to deliver its statutory function as the borough's WCA in a cost effective and efficient manner.

Acquiring a new fleet

- 28 At this juncture it is pertinent to note that all the options considered in this paper involve the complete and like for like replacement of the current fleet. Indeed, and as noted above, the fleet's ability to handle certain waste streams separately is fundamental to the completion of the Council's statutory duties as WCA – a like for like fleet replacement will achieve this goal.
- 29 It is proposed that fleet replacement will take place in three tranches straddling two financial years; the advantage of taking this approach is that it avoids vehicle warranties expiring simultaneously and, as noted above, ensures that the configuration of the acquired vehicles is appropriately balanced against the financial settlement reached with Surrey County Council and the duties of being the borough's statutory WCA.
- 30 Figure 3 provides a breakdown of the proposed approach to fleet replacement which is recommended regardless of whether outright purchase or lease hire is pursued.

Tranche	Number of vehicles		Approx. order date	Approx. delivery date
	26 tonne	15 tonne		
1	5	1	Feb-19	Aug-19
2	5	1	Apr-19	Oct-19
3	4	1	Jun-19	Dec-19
	14	3		

Figure 3 – fleet replacement schedule

- 31 It will take approximately twenty-five weeks (6 months) from ordering a vehicle to receive delivery. Those vehicles in most urgent need of replacement will be retired upon receipt of the first tranche of new vehicles.

Alternative fuels

- 32 As a responsible WCA it is incumbent upon the Council to explore the possibility of operating RCVs that use alternative fuels in order to reduce emissions and help protect the environment and the borough's air quality.
- 33 RCVs are heavy, operate on a stop-start cycle and likewise lift heavy bins. As such, they require significant amounts of energy to operate, of which has traditionally come from a diesel engine.
- 34 As a fuel for vehicles, diesel has received negative media and governmental attention in recent years due in large part to the emissions scandal that implicated a number of global vehicle manufacturers. As a result, policy makers are encouraging moves away from diesel and petrol to fuel sources that are less, or even zero, polluting. In the UK, for instance, the Government has pledged to ban the sale of all new petrol and diesel vehicles by 2040.
- 35 The Council's current fleet of RCVs are diesel powered and adhere to Euro V emission standards. Since the Council took delivery of its current fleet, Euro V has been superseded by Euro VI. Euro VI engines are significantly cleaner than Euro V, with the move to Euro VI resulting in large reductions in emissions and a more robust testing regime to ensure compliance.
- 36 The alternative fuel options to diesel are as follows:
1. Fully electric;
 2. Compressed natural gas (CNG); and,
 3. Fully hybrid (combining diesel and electric).
- 37 Notwithstanding the fact that the market has developed significantly in recent years, alternative fuel options are, at present, not commercially viable in comparison to modern diesel engines. This paper consequently does not recommend the acquisition of such vehicles. Each option is examined in turn below.

Fully electric

- 38 Fully electric vehicles draw power from an on-board battery. Whilst heavy duty vehicles such as electric buses are being produced in increasing numbers, they are significantly more expensive than traditionally fuelled vehicles and have several key operational limitations which, taken together, severely limits their commercial viability. Indeed, an electric RCV costs in the region of £300k, which is approximately £105k more than a similarly configured diesel vehicle. This would add circa £1.7 million (over 50%) to the cost of replacing the fleet.
- 39 A key operational limitation is that, owing to the vehicle's weight, they must rely on shorter routes and opportunity charging as battery technology is insufficiently advanced to power a RCV for the range required. The implementation of an electric

fleet would therefore likely require the Council to purchase more vehicles to compensate for such reduced range and would similarly require the installation of charging infrastructure at Earlswood Depot and at strategic points along collection routes. The installation of charging points currently costs approximately £12,500 each which therefore adds a significant level of expenditure to the fleet's replacement.

Compressed natural gas (CNG)

- 40 Compressed natural gas (CNG) powered RCVs are often touted as an alternative to diesel engines, with the ostensible advantage being that as a fuel it is inherently cleaner and cheaper than diesel.
- 41 CNG powered vehicles are approximately £20,000 more expensive than diesel fuelled vehicles, thus adding circa £340k onto the cost of replacing the fleet. In addition to being more expensive to purchase, the use of CNG also requires the installation of the necessary infrastructure to fuel vehicles. The latter includes connecting the depot to the CNG network and installing compressors to deliver the gas to pressurised fuel tanks. Whilst detailed costings have not been identified this will in all likelihood prove to be cost prohibitive.
- 42 Thus, whilst CNG is cheaper than diesel, such savings are offset by the need to install the required refuelling infrastructure. Moreover, with the advent of Euro VI emission standards CNG and diesel powered vehicles have similar pollutant emissions (see below).

Fully hybrid

- 43 In common with electric vehicles, fully hybrid RCVs are circa £105k more expensive than their diesel equivalents and are therefore similarly commercially unviable at present.
- 44 Whilst full hybridisation is commercially unattractive, it is possible to part hybridise our fleet. Indeed, the bin lift and compactors use a significant portion of the vehicle's energy and are driven by hydraulics that take power from the vehicle's diesel engine. Manufacturers now offer bin lifts and compactors that are operated electronically using an externally charged battery that can also be supplemented by energy harvested – and usually lost – through braking. Electric powered lifts and compactors are affordable in comparison to a fully hybrid vehicle and offer potential fuel savings as well as much quieter operation. This option for part hybridisation – as well as the likely costs and fuel savings – will be scoped as part of the procurement exercise which will follow.
- 45 Whilst the examined alternative fuels are unviable at present, rapid technological advance means that when the Council comes to replace its fleet of RCVs in 6 years' time this position may well be different.

Euro VI emissions

- 46 It is important to note that since the advent of Euro VI emissions standards diesel powered engines have become cleaner and emit significantly less carbon dioxide (CO₂) and nitrous oxide (NO_x) than their Euro V equivalents. Numerous scientific studies have shown that the latter pollutant has a particularly detrimental impact on human health.

- 47 The International Council on Clean Transportation (ICCT) has undertaken a series of tests that compares the NO_x emissions of Euro IV, V and VI heavy goods vehicles in real world driving conditions. Figure 4 shows the results of these tests which indicates a significant reduction in emissions from Euro VI vehicles. Each dot denotes a test result; the red dot shows the average for the category type.

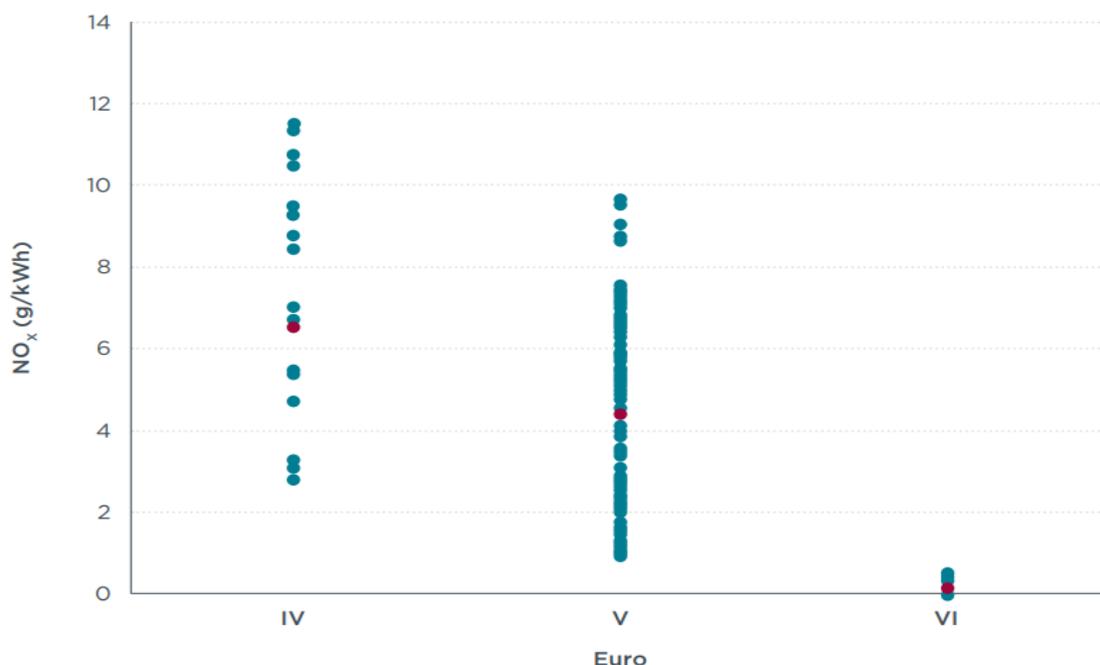


Figure 4 – ICCT emissions tests by Euro standard⁴

- 48 Moreover, the inadequate testing regimes that the emissions scandal highlighted have been overhauled and made significantly more robust to help prevent cheating. To illustrate, the ICCT has also tested for the ‘conformity factor’ of vehicles to the proscribed standards when driven in real world driving conditions. Figure 5 demonstrates the results of these tests. A result above the red line indicates non-conformity.

⁴ International Council on Clean Transportation (ICCT), 2015. Comparison of real-world off-cycle NO_x emissions control in Euro IV, V, and VI. Available at: https://www.theicct.org/sites/default/files/publications/ICCT_Briefing_EuroIV-V-VI-NOx_Mar2015.pdf

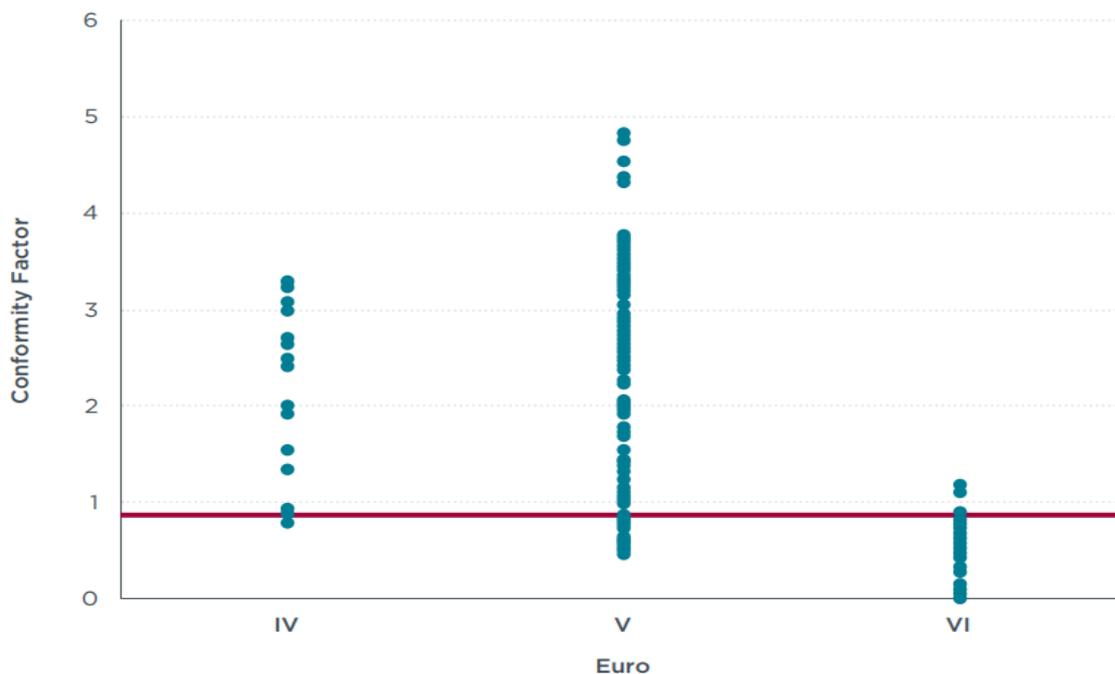


Figure 5 – ICCT emissions tests conformity factor⁵

- 49 The tests show that Euro IV and V vehicles typically emitted significantly more NO_x than was permissible, whilst Euro VI generally emits well below target, despite these targets being far more stringent.
- 50 Taking these cost and emissions considerations together, this paper therefore recommends that, in operating its new fleet, the Council should use diesel powered RCVs that conform to Euro VI standards. This is the most cost effective option for the Council which also minimises pollutant emissions.

Options for fleet replacement

- 51 As noted above, there are three broad options for fleet replacement:
 - 1. Outright capital purchase;
 - 2. Contract hire with and without a maintenance package; and,
 - 3. Refurbishment of the existing fleet.
- 52 Approximate costs have been identified for outright capital purchase and contract hire, as well as the refurbishment of the existing fleet.
- 53 It should be noted at this point that the purchase and lease hire costs – including maintenance – identified in this paper are the best estimates available to the Council before the commencement of a procurement exercise. The costs are therefore subject to change though are sufficient for this options appraisal.

⁵ Ibid

- 54 There are also a number of external factors stemming from the UK's exit from the European Union which could negatively affect the costs identified in this paper, the details of which are examined below.
- 55 To summarise, this paper recommends that the council should pursue option 1, namely: the outright capital purchase – which necessarily involves continuing in-house maintenance – of a new fleet of RCVs as specified above. This is recommended as it offers the most cost effective solution for fleet replacement and will ensure a resilient, robust and legally compliant collection service in the years ahead.

Refurbishment of the existing fleet

- 56 At this juncture it is pertinent to consider refurbishing the council's existing fleet of RCVs, the main advantage of which is that it avoids the significant capital outlay associated with complete replacement.
- 57 Earlier in 2018 the service commissioned a refuse vehicle remanufacturer to provide a quotation to refurbish the Council's existing fleet of RCVs. The quotation covers the work required to the vehicles' hydraulic lifting systems and electronics, as well as bodywork repairs. The latter does not include work to the vehicles' engines or other mechanical repairs, which the Council will continue to be required to undertake, and likewise does not include any chassis repairs, the scope of which will only be known following dismantling and close examination. Chassis repairs can be very expensive, particularly if there are underlying issues with rust and corrosion. The remanufacturer provides a three year warranty on works carried out.
- 58 It will take approximately 6 weeks for a vehicle to be refurbished and returned to the Council. Owing to operational requirements the service is unable to release more than one vehicle at any one time. As such, it will take just over two years for the entire fleet to be refurbished. By this point thirteen of the seventeen vehicles will have less than a year and a half of the remanufacturer's warranty remaining and will therefore require replacement shortly thereafter.
- 59 It is also highly likely that the condition of the vehicles awaiting refurbishment but still in operation will continue to deteriorate, with the risk of fleet and concurrent service failure being heightened still further. In such circumstances the Council would be forced to incur the high costs associated with vehicle spot hire as described above. The likelihood of the latter is compounded by the fact that the service will have one vehicle unavailable at any one time through refurbishment.
- 60 In addition, and as noted, the refurbishment quote does not include mechanical repairs. As the fleet continues to age we can expect a marked increase in costs associated with maintaining the vehicles' engines as mechanical parts increasingly fail.
- 61 To refurbish each vehicle will cost approximately £36,000; refurbishing the entire fleet will therefore cost in the region of £612,000. Whilst this is cheaper than purchasing a new fleet of vehicles, it is considered to be inherently cost inefficient for the following reasons:
1. The refurbishment cost exceeds the vehicles' value;
 2. Refurbishment does not include mechanical works. As the vehicles continue to age the risk of mechanical failure and a further increase in maintenance

- costs becomes highly likely;
3. Refurbishment reduces operational capacity and exposes the Council to the risk of increased fleet failure, which requires the expensive spot hiring of vehicles; and,
 4. Older vehicles are less fuel efficient than their newer equivalents and therefore cost more to run in fuel terms.
- 62 In addition, the Council's current fleet of RCVs are diesel powered and adhere to Euro V emission standards. As noted above, these vehicles are significantly more polluting than the subsequent generation of diesel engines that were recommended in the section above. As an environmentally conscious and responsible organisation the Council should look wherever possible to minimise the emission of pollutants.
- 63 In short, refurbishment of the Council's existing fleet of RCVs is time intensive, cost inefficient and involves the continued operation of a fleet of polluting and outdated vehicles that face an ever increasing risk of failure. For these reasons it is recommended that the Council does not refurbish its current fleet; instead, the procurement of a new fleet of domestic RCVs should be pursued in order to deliver the service in an efficient and robust way.

Capital purchase vs. contract hire

- 64 After having discounted refurbishment of the current fleet, the remaining options are:
- Option 1:** Outright capital purchase and in-house maintenance of a new fleet
 - Option 2:** Contract hire of a new fleet, with outsourced maintenance
 - Option 3:** Contract hire of a new fleet, with maintenance undertaken in-house
- 65 The costs associated with each of the above options have been identified and modelled for this options appraisal. It should be noted that the costs identified are approximate and represent the best estimates available to the Council before the commencement of a procurement exercise.
- 66 Figure 6 provides an overview of the whole life costs for each of the above options, which includes maintenance/operation costs.
- 67 It should be noted that:
- The identified costs do not include costs which would be incurred regardless of which option is chosen (staff, fuel, tyres, operator licence and insurance, etc.);
 - In the case of capital purchase, the depreciation period is six years. In order to ensure an accurate cost comparison contract hire is also for a six year period;
 - The source of the capital funding required for option 1 has not yet been identified, though it is likely that the Council will be able to fund the purchase from its reserves and would therefore not incur interest on any loan agreements;
 - No residual value is assumed under option 1, however following six years of operation the resale value of the entire fleet is likely to be in the region of £400,000; and,
 - The operation and maintenance budget is unchanged from its current form. The budget is apportioned in accordance with the proportion of the Council's

fleet that collects domestic refuse and is weighted accordingly (i.e. RCVs require more maintenance than other Council vehicles).

Option	Description	Whole-life cost (six years)
1	Capital purchase and in-house maintenance	£3.77 million
2	Contract hire and outsourced maintenance	£4.30 million
3	Contract hire and in-house maintenance	£3.91 million

Figure 6 – fleet whole life costs

- 68 As figure 6 demonstrates, the outright capital purchase and in-house maintenance of a new fleet (option 1) is the most cost efficient option for the Council and is circa £500k cheaper than contract hire and outsourced maintenance and is likewise circa £145k cheaper than hiring the vehicles and maintaining them in-house. Option 1 is therefore recommended on this basis as well as due to the fact that it simultaneously ensures a resilient, robust and legally compliant refuse and recycling collection service for the borough's residents.

Risks

- 69 There are a number of risks associated with replacing the Council's fleet. Those that have been identified so far are detailed in figure 7. Fleet failure is also managed on the Council's operational risk register.

Risk description	Mitigation
<p>No-deal Brexit</p> <p>If the UK leaves the EU on 29 March 2019 without a deal the free circulation of goods between the UK and EU will cease.</p> <p>According to the Government's recently released technical notice on trade, this would mean that customs and excise rules would be applied to goods moving between the UK and EU, thereby resulting in import and export delays as well as an increase in costs as tariffs are applied on goods.</p> <p>Manufacturing supply chains are tightly integrated, with the constituent components of RCVs moving between the UK and EU many times before their final assembly.</p>	<p>The Council will continue monitor the situation alongside our procurement partners.</p> <p>The Council should be prepared to move quickly in placing orders for the new vehicles and should avoid unnecessary delays.</p>

<p>This close integration of supply chains, coupled with the risk of the imposition of customs and excise rules, could therefore result in significantly increased costs for purchasing the required vehicles as well as a significant delay in their delivery to the Council.</p>	
<p>Fleet failure</p> <p>The fleet will continue to age whilst the procurement process is undertaken. As noted, the vehicles' increasing age means that maintenance costs will continue to be high and vehicle failure is more likely. This will result in the Council being required to acquire vehicles on expensive spot hire arrangements to meet operational demands.</p> <p>The latter is underscored by the fact that the Council will not have taken delivery of the final tranche of vehicles until December 2019 – by this point these vehicles will be eight years old and far past their economical service life.</p> <p>Delays to the procurement and/or delivery of the new vehicles will exacerbate this risk.</p>	<p>The condition of the current fleet will continue to be monitored closely and maintenance undertaken as necessary.</p> <p>The most unreliable and problematic vehicles will be retired first.</p>

Figure 7 – Fleet replacement risks

Conclusion

- 70 This paper has examined the various options available to the Council in replacing its fleet of RCVs. It is recommended that the Council should purchase outright, and maintain in-house, a new fleet of Euro VI compliant diesel vehicles (option 1).
- 71 A new fleet acquired on this basis will enable the Council to continue to deliver this important statutory service for the residents of the borough in a cost effective, efficient and legally compliant way.

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Agenda Item 5a

Executive
29 November 2018

Agenda Item: 5a
Acquisition of Freehold in Salfords



REPORT OF:	Head of Finance & Assets
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TO:	EXECUTIVE
DATE:	29 NOVEMBER 2018
EXECUTIVE MEMBER:	COUNCILLOR MRS N. BRAMHALL

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	SALFORDS & SIDLOW

SUBJECT:	ACQUISITION OF FREEHOLD IN SALFORDS
RECOMMENDATION: <p>1. Subject to a satisfactory due diligence report being received, the Head of Finance & Assets, in consultation with the Director for Finance & Organisation and the Executive Members for Property and Regeneration and Finance, be authorised;</p> <ul style="list-style-type: none">a. To acquire the Freehold referred to in this report for investment purposes.b. Agree any variations to the heads of terms and to the acquisition price further to external valuation advice and due diligence investigations as explained in the Part 2 report.	
Reason for Recommendation: <p>To obtain Executive authority to acquire, subject to the usual due diligence, this property in Redhill which will produce additional income to support the Council's 5 Year Plan.</p>	
EXECUTIVE SUMMARY <p>This report seeks authority to acquire the freehold interest of buildings in Salfords, which is subject to the occupational leases set out in the exempt Part 2 section of this agenda. The Council has submitted a bid to acquire the investment ahead of it being fully marketed. Full details of the Council's bid, the financial implications and the property's address are set out in the exempt Part 2 section of this agenda.</p> <p>Central Government funding for Local Authorities is reducing, and the Revenue Support Grant ended in the 2016/17 financial year for this Council. To enable the Council to continue to deliver the level of services its residents currently enjoy and to ensure Corporate Plan objectives are met, it is essential alternative sources of income and capital receipt are found to meet this shortfall.</p>	

The Executive has authority to determine recommendation (i)

STATUTORY POWERS

1. Section 2 of the *Local Government Act 2000* gives local authorities the power to do anything in the furtherance of the economic, social or environmental wellbeing of their area. The exercise of that power is specifically linked, in section 4 of the Act, to works required in furtherance of community and corporate plan objectives.
2. This acquisition is anticipated to provide financial enhancements to the well-being of the area for the reasons set out in the exempt Part 2 section of this report.
3. Whilst there is no statutory requirement to achieve best consideration on an acquisition, the Council's adopted Asset Management Plan and its medium term Financial Strategy require that any acquisitions made add to the value of the Council's existing asset portfolio and in turn the Council's income. These aspects are addressed in the exempt Part 2 section of the agenda. .

BACKGROUND

4. The Council's corporate plan identifies property investment and development as one of its key objectives. As Central Government funding reduces for Local Authorities this produces a budget shortfall. In order to meet this shortfall, the Council has embarked on a programme of acquiring additional income and potential capital-generating commercial investment and development opportunities. This acquisition is a longer term strategic investment opportunity providing investment income as set out in the exempt Part 2 section of this agenda.
5. It is likely the Council will be an unsuccessful bidder on some occasions, or that due diligence following agreement of terms may lead to a conclusion that a property is not a suitable investment.
6. Each investment is assessed on its own merits. Viable opportunities will be recommended to Executive individually.

ISSUES

7. The Council submitted a bid for the purchase of this freehold interest.
8. Acquiring these freehold interests, are only likely to provide limited development opportunities in the future, the plan is to hold the buildings in their current form for the longer term for investment income purposes. The acquisition will not affect the terms of the current occupational tenants lease arrangements, however if the acquisition is successful the occupational tenants will continue to pay rent directly to the Council, providing the Council with an income stream.
9. The agreed purchase is subject to the usual due diligence to confirm there are no problems with the legal title, purchase price, surveys, environmental assessments or equalities issues that may need to be addressed. The costs associated with this due diligence are set out in the exempt Part 2 section of this agenda.

10. The financial implications for the Council are clearly relevant. This has partly been addressed in the preceding paragraphs but also in detail in the exempt Part 2 section of this report detailing all the financial information.

OPTIONS

11. Complete the purchase of the Freehold Interest

Subject to the due diligence set out in paragraph 9, this is the recommended option. The Council will acquire the buildings for investment purposes in Salfords.

12. Investigate alternative property acquisitions or joint venture on the purchase

The property market continues to attract significant interest from investors. This acquisition offers an attractive prospect for investment income through the rental income stream in the longer term. However acquisitions of this nature do not come without risk and this is set out in more detail in the Part 2 report in the confidential annex to this agenda. There are always property opportunities being brought to the market, however the opportunity associated with this acquisition makes it an attractive proposition. This option is not recommended.

13. Do Nothing

For the reasons set out in this report this is not the recommended option.

LEGAL IMPLICATIONS

14. In accordance with section 120 of the Local Government Act 1972 the Council has the power to acquire land by agreement for the benefit, improvement or development of its area.
15. There is no legal duty to consult the public on any commercial terms of the acquisition. These are matters for the authority. Executive is entitled to determine them at its discretion, notwithstanding any previous decisions it has made, having considered the contents of this report.
16. Although the Council is not under an explicit duty to acquire property at market value it still must have regard to its fiduciary duties to its Council tax payers and its best value duty.
17. Legal and valuation advice will be sought as necessary throughout the acquisition process.

EQUALITIES IMPLICATIONS

18. There are no known equalities implications; this is the acquisition of a freehold building with occupational leases already in place.

COMMUNICATIONS IMPLICATIONS

19. Until the Council has exchanged contracts on the acquisition there would be no plans to issue any communications. This is the procedure when confidential contract negotiations are being held by the Council on acquisitions. Further detail on communications is described in the confidential annex at Part 2 of this agenda.

RISK MANAGEMENT CONSIDERATIONS

20. These are set out in the Part 2 report in the confidential section of this agenda.

FINANCIAL IMPLICATIONS

21. The purchase price and acquisition costs comprising stamp duty land tax, introducing agents fees, valuation advice, surveys and legal fees are set out in the exempt Part 2 report.
22. This acquisition will provide the Council with a significant income stream. The acquisition is for investment purposes which are explored more fully in the confidential annex at the exempt Part 2 of this agenda.
23. This investment is a strategic acquisition and not without risk. Currently the property is let on a number of leases. However, it should be recognised that rental income can be interrupted due to tenant default or void periods between lettings. Furthermore, there is always a risk of rental values falling due to fluctuations in the market.
24. The purchase falls within the capital budgets for property acquisition previously approved by the Council. The property will be funded from the Council's reserves and/or borrowing in line with the prevailing cash flow requirements and treasury management policy at the date of purchase. Any VAT payable on the purchase will be fully recoverable.
25. This acquisition will provide the Council with a rental income stream the details of which are set out in the Part 2 report in the confidential section of this agenda. This additional income will help deliver the service and financial planning objective to identify new sources of funding for the council services as Government support reduces.

CONSULTATION

26. The Leader of the Council, Deputy Leader of the Council and Portfolio Holders for Property and Regeneration and Finance have been consulted about this acquisition and are supportive of the acquisition.

POLICY FRAMEWORK

27. The acquisition also reflects the aim of the Council's Asset Management Plan to undertake acquisitions, to add to the value of existing asset or to produce a greater financial return than alternative investment options in accordance with the Council's medium-term financial strategy.

Background papers: Attached to the Exempt Part 2 report.