BOROUGH OF RUSHMOOR

To the Mayor and Members of the Council,

YOU ARE HEREBY SUMMONED to attend a Meeting of the Council to be held at the Council Offices, Farnborough on ***Thursday, 20th February, 2020*** *at* ***7.00 pm*** for the transaction of the business set out on the Agenda given below.

A G E N D A

1. **MINUTES –** (Pages 1 - 6)

   To confirm the Minutes of the Extraordinary and Ordinary Meetings of the Council held on 3rd and 5th December, 2019 (copy Minutes attached).

2. **MAYOR'S ANNOUNCEMENTS –**

3. **STANDING ORDER 8 - QUESTIONS –**

   To receive any questions by Members submitted in pursuance of Standing Order 8 (3).

4. **MAYOR-ELECT AND DEPUTY MAYOR-ELECT 2020/21 –**

At its meeting on 27th January 2019, the Licensing, Audit and General Purposes Committee considered the nominations for Mayor-Elect and the Deputy Mayor-Elect for 2020/21 and made the following recommendations:

(i) That Cllr P.F. Rust be selected as Mayor-Elect for the Municipal Year 2020/21.

(ii) That Cllr M.S. Choudhary be selected as Deputy Mayor-Elect for the Municipal Year 2020/21.

5. **RECOMMENDATIONS OF THE CABINET AND COMMITTEES –**

To consider the recommendation(s) of the Cabinet/Committee in relation to the following item(s):

1) **Revenue Budget, Capital Programme, Council Tax Level and Council Tax Support Scheme 2020/21 –** (Pages 7 - 40)

To receive a report from the Cabinet (copy attached – Annex 1) which recommends the approval of the Revenue Budget, Capital Programme, Council Tax Level and Council Tax Support Scheme for 2020/21. The proposed Council Tax Resolution report is also attached. Cllr P.G. Taylor, Corporate Services Portfolio Holder will introduce this item.

2) **Annual Capital Strategy 2020/21 –** (Pages 41 - 54)

To receive a report from the Cabinet (copy attached – Annex 2) which recommends the approval of the Council's Capital Strategy for 2020/21. Cllr P.G. Taylor, Corporate Services Portfolio Holder will introduce this item.

3) **Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2020/21 –** (Pages 55 - 90)

To receive a report from the Cabinet (copy attached – Annex 3), which recommends the approval of the Treasury Management Strategy 2020/21, Non-Treasury Investment Strategy 2002/21 and the Minimum Revenue Provision Statement. Cllr P.G. Taylor, Corporate Services Portfolio Holder will introduce this item.

4) **Establishing a Local Housing Company - The Housing Company Business Plan –** (Pages 91 - 140)

To receive a report from the Cabinet (copy attached – Annex 4), which recommends the approval of the five-year business plan of the Council's local housing company. Cllr M.J. Tennant, Major Projects and Property Portfolio Holder will introduce this item.

6. **QUESTIONS FOR THE CABINET –**

To receive any questions by Members to Cabinet Members submitted in accordance with the Procedure Note.

7. **REPORTS OF CABINET AND COMMITTEES –** (Pages 141 - 184)

To receive and ask questions on the Reports of the following Meetings (copy reports attached):

Cabinet	16th December, 2019 7th January, 2020 4th February, 2020

Committees

Licensing, Audit and General Purposes	25th November, 2019
Development Management	4th December, 2019
Development Management	15th January, 2020
Licensing, Audit and General Purposes	27th January, 2020

8. **REPORT OF POLICY AND PROJECT ADVISORY BOARD –** (Pages 185 - 190)

To note the Reports of the following meetings (copy reports attached):

Policy and Project Advisory Board 22nd January, 2020

A.E. COLVER
Head of Democracy, Strategy and Partnerships

Council Offices
Farnborough
Hampshire GU14 7JU

Wednesday 12th February 2020

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BOROUGH OF RUSHMOOR

EXTRAORDINARY MEETING OF THE BOROUGH COUNCIL held at the Council Chamber, Council Offices, Farnborough on Tuesday, 3rd December, 2019 at 6.30 pm.

The Worshipful The Mayor (Cllr Sue Carter (Chairman))
The Deputy Mayor (Cllr P.F. Rust (Vice-Chairman))

Cllr Mrs. D.B. Bedford
Cllr M.S. Choudhary
Cllr A.H. Crawford
Cllr P.J. Cullum
Cllr Veronica Graham-Green
Cllr Christine Guinness
Cllr Prabesh KC
Cllr Nadia Martin
Cllr Marina Munro
Cllr Sophie Porter
Cllr M.D. Smith
Cllr P.G. Taylor
Cllr B.A. Thomas
Cllr J.B. Canty
Cllr D.E. Clifford
Cllr P.I.C. Crerar
Cllr K. Dibble
Cllr C.P. Grattan
Cllr L. Jeffers
Cllr Mara Makunura
Cllr S.J. Masterson
Cllr A.R. Newell
Cllr M.L. Sheehan
Cllr C.J. Stewart
Cllr M.J. Tennant
Cllr Jacqui Vosper

Apologies for absence were submitted on behalf of Cllr Gaynor Austin, Cllr T.D. Bridgeman, Cllr Sophia Choudhary, Cllr A.K. Chowdhury, Cllr R.M. Cooper, Cllr A.J. Halstead, Cllr J.H. Marsh, Cllr T.W. Mitchell, Cllr K.H. Muschamp and Cllr M.J. Roberts.

Before the meeting was opened Cllr P.G. Taylor led the meeting in prayers.

33. **ELECTION OF HONORARY ALDERMEN**

(1) **Donald Cappleman**

It was MOVED by Cllr K. Dibble, SECONDED by Cllr C.P. Grattan – That, pursuant to the provisions of Section 249(1) of the Local Government Act, 1972, the title of Honorary Alderman of the Borough of Rushmoor be conferred upon **DONALD CAPPLEMAN** in recognition of the eminent and long service rendered by him to Rushmoor Borough Council for 19 years.

The Motion was put to the Meeting and was **DECLARED CARRIED** nem.con.

The Mayor presented Honorary Alderman Donald Cappleman with a framed copy of the Resolution conferring the title of Honorary Alderman of the Borough Rushmoor and a Badge of Office.

Honorary Alderman Donald Cappleman addressed the Council and thanked Members for the honour that had been bestowed upon him.

(2) **Sue Dibble**

It was MOVED by Cllr P.F. Rust, SECONDED by Cllr Nadia Martin – That, pursuant to the provisions of Section 249(1) of the Local Government Act, 1972, the title of Honorary Alderman of the Borough of Rushmoor be conferred upon **SUE ANNE DIBBLE** in recognition of the eminent and long service rendered by her to Rushmoor Borough Council for 24 years.

The Motion was put to the Meeting and was **DECLARED CARRIED** nem.con.

The Mayor presented Honorary Alderman Sue Dibble with a framed copy of the Resolution conferring the title of Honorary Alderman of the Borough Rushmoor and a Badge of Office.

Honorary Alderman Sue Dibble addressed the Council and thanked Members for the honour that had been bestowed upon her.

(3) **Anthony Gardiner**

It was MOVED by Cllr P.I.C. Crerar, SECONDED by Cllr B.A. Thomas – That, pursuant to the provisions of Section 249(1) of the Local Government Act, 1972, the title of Honorary Alderman of the Borough of Rushmoor be conferred upon **ANTHONY EDWARD ARTHUR** GARDINER in recognition of the eminent and long service rendered by him to the former Aldershot Borough Council and Rushmoor Borough Council for 23 years and as Deputy Mayor of Rushmoor from 1986 to 1987.

The Motion was put to the Meeting and was **DECLARED CARRIED** nem.con.

The Mayor presented Honorary Alderman Anthony Gardiner with a framed copy of the Resolution conferring the title of Honorary Alderman of the Borough Rushmoor and a Badge of Office.

Honorary Alderman Anthony Gardiner addressed the Council and thanked Members for the honour that had been bestowed upon him.

(4) **David Welch**

It was MOVED by Cllr M.S. Choudhary, SECONDED by Cllr S.J. Masterson – That, pursuant to the provisions of Section 249(1) of the Local Government Act, 1972, the title of Honorary Alderman of the Borough of Rushmoor be conferred upon **DAVID MILLINGTON WELCH** in recognition of the eminent and long service rendered by him to Rushmoor Borough Council for 33 years and as Mayor of Rushmoor from 1988 to 1989 and from 2007 to 2008.

The Motion was put to the Meeting and was **DECLARED CARRIED** nem.con.

The Mayor presented Honorary Alderman David Welch with a framed copy of the Resolution conferring the title of Honorary Alderman of the Borough Rushmoor and a Badge of Office.

Honorary Alderman David Welch addressed the Council and thanked Members for the honour that had been bestowed upon him.

The meeting closed at 7.50.

BOROUGH OF RUSHMOOR

MEETING OF THE BOROUGH COUNCIL held at the Council Chamber, Council Offices, Farnborough on Thursday, 5th December, 2019 at 7.00 pm.

The Worshipful The Mayor (Cllr Sue Carter (Chairman))
The Deputy Mayor (Cllr P.F. Rust (Vice-Chairman))

Cllr Mrs. D.B. Bedford
Cllr M.S. Choudhary
Cllr D.E. Clifford
Cllr A.H. Crawford
Cllr P.J. Cullum
Cllr Veronica Graham-Green
Cllr Christine Guinness
Cllr L. Jeffers
Cllr Nadia Martin
Cllr T.W. Mitchell
Cllr K.H. Muschamp
Cllr Sophie Porter
Cllr M.D. Smith
Cllr P.G. Taylor
Cllr B.A. Thomas
Cllr J.B. Canty
Cllr A.K. Chowdhury
Cllr R.M. Cooper
Cllr P.I.C. Crerar
Cllr K. Dibble
Cllr C.P. Grattan
Cllr A.J. Halstead
Cllr Mara Makunura
Cllr S.J. Masterson
Cllr Marina Munro
Cllr A.R. Newell
Cllr M.L. Sheehan
Cllr C.J. Stewart
Cllr M.J. Tennant
Cllr Jacqui Vosper

Honorary Alderman R.J. Kimber
Honorary Alderman A.E.A. Gardiner

Apologies for absence were submitted on behalf of Cllr Gaynor Austin, Cllr T.D. Bridgeman, Cllr Sophia Choudhary, Cllr Prabesh KC, Cllr J.H. Marsh and Cllr M.J. Roberts.

Before the meeting was opened, the Mayor's Chaplain, Revd. Steve Stewart, led the meeting in prayers.

34. MINUTES

It was MOVED by Cllr A.R. Newell; SECONDED by Cllr P.G. Taylor and

RESOLVED: That the Minutes of the Ordinary Meeting of the Council held on 3rd October 2019 (copy having been circulated previously) be taken as read, approved and signed as a correct record.

35. MAYOR'S ANNOUNCEMENTS

(1) The Mayor conveyed her sincere condolences, on behalf of the Council, to the family of former Mayor and Councillor Alan Ferrier who had recently passed away. Alan Ferrier had served on the Council for 33 years and held the position of Mayor twice.

(2) The Mayor advised Members that she had visited a number of primary schools in the Borough in recent weeks as well as Farnham, Fleet and Aldershot Sea Cadets to talk to them about being the Mayor. There had also been a number of community events which the Mayor had attended including the Rushmoor Firework Extravaganza and switching on the Christmas lights in Aldershot Town Centre. The Community Carol Services had been held the previous evening which had been extremely well attended and included children singing and a spectacular fireworks display.

(3) The Mayor's Charity Horse Race Night had been held on 25th October and was very well attended and raised £682 for the Mayor's charities, the Mayor thanked those that had attended and supported the event. A charity quiz night was being held on 24th January 2020 and Members were invited to join a team. The Mayor's Charity Banquet and Ball was being held on 6th March at Princes Hall and invitations would be sent out shortly.

(4) The Mayor advised Members that on 10th December a Mayor's Grotto was being set up at Christ Church in Cove. The Mayor thanked those Members that had donated presents. The number of presents received from organisations and residents for the Grotto had been overwhelming and, in addition to the Grotto, presents would be donated to schools and hospitals in the area for deserving children. Members were asked to advise the Mayor of any families they would like to nominate to receive presents.

36. **STANDING ORDER 8 - QUESTIONS**

The Mayor reported that no questions had been submitted under Standing Order 8 (3).

37. **NOTICES OF MOTION**

The Council was asked to consider two Notices of Motion which had been submitted for debate in accordance with the provisions of Standing Order 9 (1).

(1) **Highways Responsibilities**

A Motion had been submitted by Cllr A.K. Chowdhury in respect of highways responsibilities. It was MOVED by Cllr A.K. Chowdhury; SECONDED by Cllr T.W. Mitchell - That

"This Council recognises that the standard of highways in this Borough is crucially important to local people.

The current response and priority given to Rushmoor has been problematical since agency agreements with Hampshire CC have been amended over the years.

We believe that it's essential for the good of our residents that we take back some control of our own highways' issues.

We call on those responsible in Hampshire and Rushmoor to enter into negotiations to allow this Council to take back more control of highways in Rushmoor, with Hampshire delegating the necessary resources through a revised agency arrangement."

In introducing the Motion, Cllr Chowdhury said that there was a weakness in the agency agreement with Hampshire County Council in addressing highways issues in the Borough. In three quarters of the case work dealt with by Cllr Chowdhury the issues were the responsibility of the County Council and Rushmoor Council were unable to take any action as only the County Council could make the decision. Cllr Chowdhury proposed that Rushmoor Council should take back better control of highways management.

An amendment to the Motion was MOVED by Cllr K. Dibble; SECONDED by Cllr D.E. Clifford that the matter should be referred to the Overview and Scrutiny Committee to consider the issues in more detail in respect of cost and resource implications in bringing highway management under the control of Rushmoor Council.

There voted FOR: 32; AGAINST: 0 and the amended Motion was **DECLARED CARRIED**.

(2) **Heathrow Southern Railway**

A Motion had been submitted by Cllr J.B. Canty in respect of the Council endorsing the Heathrow Southern Railway's proposal as its preferred option for a Southern Rail Link from Heathrow Airport to Farnborough. Since the Notice of Motion had been published on the agenda, Cllr Canty had agreed that the proposal should be considered further by the Policy and Project Advisory Board. Therefore, he had withdrawn the Motion from the meeting agenda.

38. **RESIGNATION OF COUNCILLOR JOHN WOOLLEY AND APPOINTMENTS**

It was NOTED that Cllr John Woolley had resigned as a Member of Fernhill Ward with effect from 3rd December 2019. As a result of the resignation, there was a vacancy to be filled on the Licensing, Audit and General Purposes Committee.

It was MOVED by Cllr S.J. Masterson; SECONDED by Cllr D.E. Clifford - that Cllr M.S. Choudhary be appointed as a Member of the Licensing, Audit and General Purposes Committee for the remainder of the 2019/20 municipal year.

There voted FOR: 24; AGAINST: 0 and the appointment was **DECLARED CARRIED**.

39. **QUESTIONS FOR THE CABINET**

The Mayor reported that no questions had been submitted for the Cabinet.

40. **REPORTS OF CABINET AND COMMITTEES**

(1) Cabinet

It was MOVED by Cllr D.E. Clifford; SECONDED by Cllr M.L. Sheehan and

RESOLVED: That the Reports of the meetings of the Cabinet held on 15th October and 12th November, 2019 be received.

(2) Licensing, Audit and General Purposes Committee

It was MOVED by Cllr S.J. Masterson; SECONDED by Cllr J.B. Canty and

RESOLVED: That the Reports of the meetings of the Licensing, Audit and General Purposes Committee held on 23rd September and 16th October, 2019 be received.

(3) Development Management Committee

It was MOVED by Cllr B.A. Thomas; SECONDED by Cllr Mrs D.B. Bedford and

RESOLVED: That the Report of the meeting of the Development Management Committee held on 20th November, 2019 be received.

41. **REPORTS OF OVERVIEW AND SCRUTINY COMMITTEE AND POLICY AND PROJECT ADVISORY BOARD**

RESOLVED: That the Reports of the undermentioned meetings of the Policy and Project Advisory Board and Overview and Scrutiny Committee be received:

Meeting	Date
Policy and Project Advisory Board	25th September 2019
Overview and Scrutiny Committee	24th October 2019
Policy and Project Advisory Board	20th November 2019

The meeting closed at 8.00 pm.

ANNEX 1

COUNCIL MEETING – 20th FEBRUARY 2020

AGENDA ITEM NO. 5 (1)

REVENUE BUDGET, CAPITAL PROGRAMME, AND COUNCIL TAX LEVEL

A report from the meeting of Cabinet held on 4th February 2020

1. COUNCIL REPORT

1.1 On 04 February 2020, Cabinet considered report FIN2007 and agreed recommendations on the budget and Council Tax requirement for 2020/21, subject to any amendments in the final Local Government Finance Settlement, or the operation of the collection fund, particularly in respect of the Business Rates Retention Scheme. Any changes associated with the delegation arrangements (which were agreed at Council on the 20th January 2014), or the final settlement figures, would be made by the Executive Head of Finance, in consultation with the Leader of the Council and the portfolio holder for Corporate Services.

1.2 Final estimates for business rates were completed on 31 January 2020 and the Local Government Finance Settlement was published on 06 February 2020 via a written ministerial statement. **There are no changes to the Settlement figures, from those previously reported to Cabinet. Estimates for Business Rates have improved by £142,000, with the additional surplus allocated to the Service Improvement Fund (£92,000) and Workforce Planning Reserve (£50,000)**.

1.3 The estimated General Fund balance at the close of 2020/21 of £2.0m therefore remains as previously approved by Cabinet for recommendation to Council.

1.4 Cabinet considered the report from the Council Tax Support Task and Finish Group at their meeting on 16 December 2019 (Report No: FIN1934). Cabinet accepted the proposal from the Group that no changes should be made to the Council Tax Support Scheme for 2020/21. This would mean that the minimum contribution would remain at 12%. Additionally, Cabinet accepted the Group's recommendation that a fundamental review of the scheme should be started in 2020, specifically to consider the impact of the roll out of Universal Credit on Rushmoor residents and the Council, long term affordability, and scheme complexity.

1.5 The Cabinet report is reproduced below in its entirety for completeness (Appendix A). Relevant tables have been updated below to reflect the updated estimates for Business Rates.

1.6 The impact of the additional business rates income is shown in the Budget Report summary below (Table C1), with the yellow highlighting indicating revised figures:

2. BUDGET REPORT SUMMARY

2.1 The Council's Medium Term Financial Forecast and budget proposals were the subject of a presentation to all members on 20 January 2020. Whilst the Medium Term Financial Forecast has been updated as part of the budget preparation, the broad assumptions contained within the budget remain the same and are consistent with the agreed Financial Strategy.

2.2 It is proposed that the Council increases Council Tax by the maximum permissible level (up to a 2% or £5.00, whichever is higher) for a Band D property. This would increase Rushmoor Borough Council's Band D rate by £5.00 (just under 10p per week) from £204.42 to £209.42.

2.3 Council approved to increase the amount of Council Tax Empty Property Premium charged for long-term empty properties at their meeting on 21 February 2019 (Report No: FIN1907). Members are reminded that from 01 April 2020 a premium of 200% (300% Council Tax Liability, for properties which have been empty for 5 years or more) will be charged.

2.4 The Local Government Finance Settlement (confirmed on 06 February 2020) should be viewed as a 'roll-over' settlement from 2019/20 and that it only covers the forthcoming financial year. Significant changes are expected to local government finance from 2021/22.

2.5 The settlement largely confirmed the funding position set out in the Spending Round 2019. This included a continuation of the approach to eliminating negative RSG and an uprating of the Settlement Funding Assessment (SFA). Other announcements included a reduced council tax referendum principle of 2% or £5, an extension of the additional Rural Services Delivery Grant, and a new Social Care Grant for 2020/21.

2.6 A major change to New Homes Bonus (NHB) was confirmed whereby the 2020/21 element of the reward does not give rise to any future legacy payment. Whilst the total amount of NHB for 2020/21 is £1.169m, the 2020/21 element is only payable in 2020/21. Whilst the Government have announced a consultation later in the Spring on the future of NHB, the MTFS assumes it will taper out over the next 2 years.

2.7 The Council is legally required to set a balanced budget for the forthcoming financial year. As can be seen in the MTFS below, the Council's core financial position is a balanced budget next year, with a projected deficit of £1.4m in 2021/22. An important part of the strategy for financial sustainability will be to continue to deliver efficiencies and savings over the coming years

Table C1 – Medium Term Financial Forecast

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Portfolio Net Expenditure	10,179	8,753	8,429	8,313	8,313
Corporate Items	(1,093)	2,688	5,113	7,144	7,786
Adjusted Budget	**9,085**	**11,441**	**13,542**	**15,458**	**16,099**
Additional Items	251	909	692	692	692
Budget Proposals	0	376	26	26	26
Risk items	0	0	750	1,350	1,600
Savings Plan	(444)	(1,436)	(3,567)	(5,196)	(6,201)
Draft Net Revenue Budget	**8,893**	**11,290**	**11,444**	**12,330**	**12,216**
Funded by:					
Council Tax	6,409	6,705	6,933	7,166	7,403
Business Rates	3,836	3,767	2,561	2,610	2,662
New Homes Bonus	1,010	1,169	550	211	0
Other Funding	541	(3)	0	0	0
TOTAL Funding	**11,797**	**11,637**	**10,044**	**9,987**	**10,065**
Core Surplus / (Deficit)	**2,904**	**347**	**(1,400)**	**(2,343)**	**(2,152)**
Additional transfers					
to Commercial Property Reserve	(2,000)				
to Stability & Resilience Reserve					
to Service Improvement Fund		(297)			
to Regeneration	(450)				
to Regeneration/Commercial DD	(250)				
to Workforce Planning	(200)	(50)			
Core Surplus / (Deficit) after Transfers	**4**	**(0)**	**(1,400)**	**(2,343)**	**(2,152)**

Reconciliation of movement between Cabinet and Council	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Core Surplus / (Deficit) (Cabinet 04/02/2020)	2,904	205	(1,400)	(2,343)	(2,152)
Core Surplus / (Deficit) (Council 20/02/2020)	2,904	347	(1,400)	(2,343)	(2,152)
Difference	**0**	**142**	**0**	**0**	**0**
Explained by:					
Business Rates		142			
Collection Fund		0			
TOTAL	**0**	**142**	**0**	**0**	**0**

2.8 The Council has a good track record of delivering budget and efficiency savings, and this must be sustained over the medium term to enable the Council to meet its balanced budget requirement in future years and to be financially resilient.

2.9 There is an inherent risk with savings targets - there is a risk that these will not be achieved in full or in the timeframe required which would put additional financial pressure on the Council. The Savings Targets have been profiled to some degree to take into account the challenges around delivery.

2.10 It is worth noting that the Savings Plan does not resolve the deficit position forecast over the MTFS period. Whilst the Council may benefit from further Government Funding (e.g. transitional arrangements from 2021/22, NHB replacement), the downward trend in Government funding will frame he Council's revenue budget in future years.

2.11 Therefore, it is recommended that the Council continues to review not only the cost of services but considers the nature and scope of services beings delivered.

2.12 The Council's financial position is supported by its balances and reserves. The Budget Strategy sets a target for the General Fund balance to be maintained at a minimum of £2m, with the Stability and Resilience Reserve balance held at a level that would allow the Council to mitigate short-term fluctuations in income and expenditure (e.g. Business Rates, changes to Government Funding).

2.13 The Council also holds reserves to deal with specific risk, with the Commercial Reserve established to provide a source of funding to mitigate potential fluctuations in commercial property income.

2.14 It is proposed that additional reserves are created due to an increased level of risk and uncertainty facing the Council over the medium term

- Pensions
- Regeneration
- Regeneration (Professional Advice and Due Diligence)
- Workforce Strategy

2.15 The proposed Capital Programme for 2020/21 is £52.226m and continues to focus on the Council's key priorities including Town Centre Regeneration, Income generation schemes, and enhancing the delivery of core services through improvement and enhancement of assets.

2.16 The Council is committed to bringing forward the schemes as broadly set out below. Indicative estimates are shown to enable members to understand the scale of each scheme. It is important to note that the figures below give a broad indication of the relative scale of each scheme. Scheme may be delivered in phases, with options put forward around certain key sites within the schemes. The figures do not necessarily represent the Council's financial commitment, as there will be a number of financing options to consider that reduce and mitigate financial risks on the schemes.

- Union Street East: £40m to £50m
- Leisure Centre: £25m to £40m
- Civic Quarter: £100m to £150m.

2.17 Implementation of the core programme in 2020/21 will require the use of Council resources, largely through borrowing (£44.210m), together with £8.017m use of grants and contributions including Better Care Fund and an element of developers' s106 contributions.

3. CORPORATE GOVERNANCE

3.1 The Executive Head of Finance, as the Council’s Section 151 Officer, has made a statement in compliance with Section 25 of the Local Government Act 2003 on the robustness of the estimates and the adequacy of the Council’s reserves. This is included with the Cabinet Report in Appendix A.

4. CONCLUSIONS

4.1 In spite of the uncertainties around Government Funding from 2020/21 and other risks associated with Brexit and the general economic position, the Council has been able to prepare a sound budget whilst maintaining services to residents. The budget will also provide a platform for Rushmoor to address future challenges.

4.2 The budget allows for the implementation of essential additional revenue items and, importantly, provides certainty of funding to support key Council priorities:

- £250k of funding set aside in a new Climate Change reserve to enable the Council to deliver against the plan it develops in response to the motion passed on 20 June 2019 acknowledging a Climate Emergency
- £100k of funding set aside in a new Deprivation Strategy reserve to support actions arising from the agreed Deprivation Strategy
- Increase Ward Budgets from £1,000 per ward to £3,000 per ward

4.3 The budget proposals provide for the current Council Tax level to increase by £5.00 for a Band D property (from £204.42 per annum to £209.42) - an increase of less than 10p per week).

4.4 In order to achieve this, the budget proposals will require the implementation of budget savings of £1.436m in 2020/21, together with further savings over the medium term, totalling approximately £16.4m over the period to 2023/24. This will require reductions in the Council's service expenditure, and increased income generation, in accordance with the Medium-Term Financial Forecast and the Financial Strategy.

4.5 Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing, which will be monitored and reported to Cabinet throughout 2020/21.

5. RECOMMENDATIONS

5.1 The Council is recommended to approve the following, as detailed in report FIN2007 and in the attached budget booklet, subject to the amendments detailed in paragraph 1.2 of this report.

i) the General Fund Revenue Budget Summary set out in Appendix 1

ii) the detailed General Fund Revenue Budget set out in Appendix 2

iii) the additional items for inclusion in the budget, set out in Appendix 3

iv) the Council Tax Requirement of £6,704,629 for this Council

v) the Council Tax level for Rushmoor Borough Council's purposes of £209.42 for a Band D property in 2020/21 (an increase of £5)

vi) the Capital Programme, set out in Appendix 4

vii) the Strategy for the Flexible use of Capital Receipts set out in Appendix 5

viii) the Executive Head of Finance's report under Section 25 of the Local Government Act 2003 as set out in section 10

ix) the additional transfers to earmarked reserves in 2020/21 and the holding of reserves as set out in the report

x) the insurance arrangements, made through the Hampshire Insurance Forum and Aon and effective from April, 2020, resulting in an annual saving on premiums of £81,000, as set out Table 5 of the Report; and

5.2 The Council is recommended to approve the following, as detailed in report FIN1934

i) that the existing scheme is continued for 2020/21

Cr. D E Clifford
Leader of the Council

1. CABINET REPORT INTRODUCTION

1.1 This report sets out the key factors taken into account in preparing the budget plans for Rushmoor Borough Council for 2020/21, with detailed budget proposals for both Revenue and Capital spending contained in Appendices 2 to 4.

2. BACKGROUND

2.1 Cabinet approved the budget framework set out in the Medium-Term Financial Strategy 2020/21 on 15 October 2019 (Report no: FIN1928). This included a number of assumptions around:

- An assumed level of Government Funding based on the outcome of the Spending Round 2019
- Forecasts of Council Tax, Business Rates and New Homes Bonus
- Inflationary cost pressures

2.2 The budget proposals for 2020/21 have been put together within the framework set out in the Medium-Term Financial Strategy, which outlined the context and strategic direction of the Council's finances. The forecast has been updated, taking onto account the current financial position and the uncertainty around the medium term. It is important the Council considers Capital expenditure plans due to the longer-term impact of borrowing costs in future years.

2.3 The MTFS continues to provide a risk-based General Fund balance of £2m being the minimum expected level for total working balances.

3. STRATEGIC CONTEXT

3.1 As set out in the Medium-Term Financial Strategy 2020/21 to 2023/24 report to Cabinet in October 2019, Rushmoor Borough Council continues to face significant financial challenges over the medium-term. This report provides members with a detailed overview of the financial prospects for 2020/21 based on the local government finance settlement announced in December 2019. The medium-term financial forecast by the authority is less clear, with considerable uncertainty around the scale and impact of the changes to local government funding du to be introduced from April 2021.

3.2 With this in mind, the Council is in a good position for the coming financial year and can set a balanced budget with support for key priorities. However, the financial prospects for 2021/22 and beyond are less positive with a core deficit on the MTFS forecast. The Council will need to take this into account and will need to continue to take difficult decisions around resource allocation and prioritisation over the next 12 months.

Provisional Local Government Finance Settlement 2020/21

3.3 The provisional settlement for 2020/21 was announced on 20 December 2019 and should be viewed as a 'roll-over' settlement from 2019/20. It is worth stressing that the provisional settlement only covers the forthcoming financial year. Significant changes are expected to local government finance from 2021/22.

3.4 The government's consultation on the settlement closed on 17 January 2020. At the time of writing this report, the government had not confirmed when the final settlement will be announced. As such, this report has been prepared based on figures contained within the provisional local government finance settlement, which are therefore subject to change when the final settlement figures are released.

3.5 The provisional settlement largely confirmed the funding position set out in the Spending Round 2019. This included a continuation of the approach to eliminating negative RSG and an uprating of the Settlement Funding Assessment (SFA). Other announcements included a confirmation of the council tax referendum principle of 2% or £5 (whichever is higher) for shire districts, no change position on the New Homes Bonus national baseline for 2020/21, an extension of the additional Rural Services Delivery Grant, and a new Social Care Grant for 2020/21.

Business Rates

3.6 The Council is required to finalise its Business Rates estimates for 2020/21 and its initial estimate of any surplus or deficit for 2019/20 by 31 January 2020.

3.7 Forecasting business rates income is complex. Predicting the delivery of new business premises year by year is not straightforward. Likewise, the number and value of appeals under the new 'check, challenge, appeal' process operated by the Valuation Office Agency is difficult, although initial numbers from the VOA against the April 2017 rating list are relatively low. There remains a significant number of outstanding appeals against the 2010 rating list that provision is made for.

3.8 The draft forecast for business rates included in this report is lower than last year. Other things being equal, it would be expected that business rates income would rise in line with the increase in the business rates multiplier (around 1.7%). However, the forecast includes an estimated decline in business rates during the year, in part due to significant redevelopment in Aldershot Town Centre and the demolition and subsequent development around Southwood Crescent in Farnborough.

3.9 The Business Rates Collection Fund is forecast to be in a deficit position by the end of the current year. Whilst this is not ideal, it is consistent with the outturn position on the collection fund for 2018/19. Owing to the way in which business rates are accounted for through the budget setting process and the year-end collection fund, any surplus or deficit from the previous year is dealt with in the following year's budget. Therefore, the forecast deficit of £371k represents the timing difference between the 2018/19 outturn forecast from January 2019 and the final outturn declared in April 2019, along with the estimated forecast for 2019/20.

3.10 Final agreement of the Business Rates estimates will be made by the Council's Section 151 Officer in consultation with the Leader of the Council, under the delegation agreed by Council on 20th January 2014, and an update will be provided to Cabinet alongside this report.

3.11 Should the final settlement figures or the business rates estimates be materially different from those presented in this report, the General Fund Summary will be updated by the Council's Section 151 Officer in consultation with the Leader of the

Council and the Portfolio holder for Corporate Services, prior to consideration of the budget by Council on 20 February 2020.

New Homes Bonus (NHB)

3.12 The allocation of New Homes Bonus (NHB) for 2020/21 was confirmed in the provisional settlement. The Government had indicated in the technical consultation in the autumn that changes to the NHB scheme were likely and had consulted on whether to continue to prioritise the scheme over other potential uses for the funding.

3.13 The major change to the NHB allocation is that the 2020/21 element of the reward does not give rise to any future legacy payments. In previous years, each year's allocation was paid for a number of additional years (initially 6 years but subsequently reduced to 4 years).

3.14 Whilst the total amount of NHB for 2020/21 is £1.169m, the 2020/21 element of £456k will only be payable in 2020/21. Therefore, future payments of NHB will reduce significantly as the legacy payments taper-out over the next 3 years. This is best illustrated in the table below.

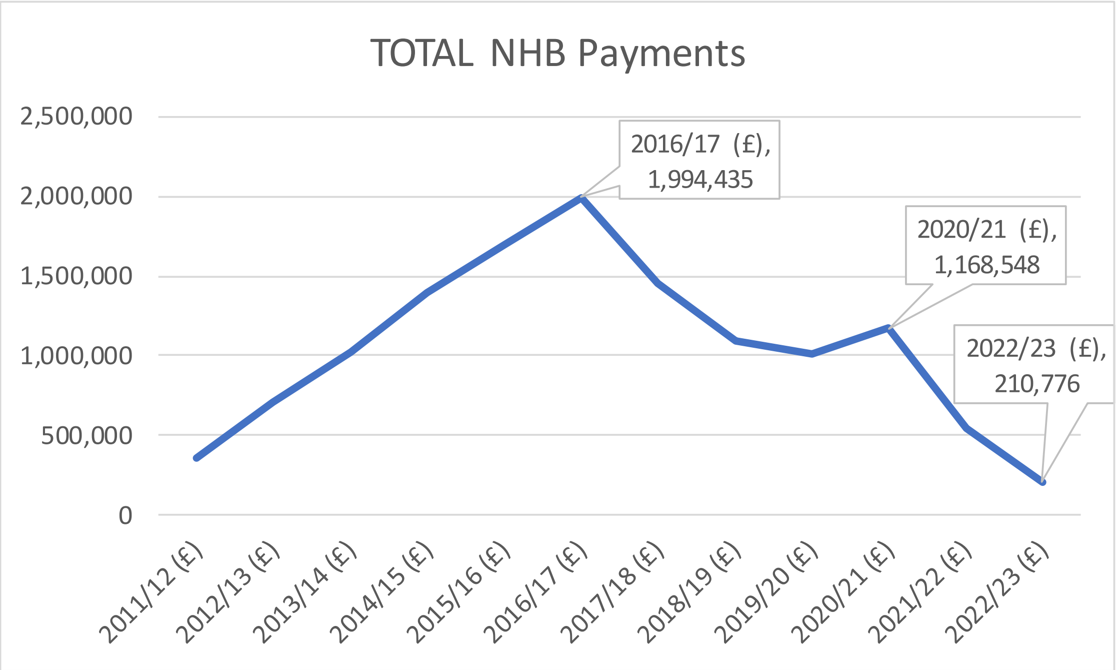
3.15 The Government has not provided any details on what will happen to the scheme in future years. Whilst there have been references in previous local government finance consultations that NHB should be more "targeted", the government has yet to provide any detail. A consultation on NHB is due in Spring 2020 and it is unlikely that any replacement scheme will distribute as much funding as the current scheme.

Table 1a – 2020/21 New Homes Bonus calculation

New Homes Bonus Calculation	**TOTAL**
New Properties (October 2018 to October 2019)	407
Empty Homes brought into use	53
Converted into Band D equivalent	426
As % of previous year's Band D equivalent stock	0
National Baseline	0
Less: Units not rewarded (up to baseline)	(150)
Units rewarded above baseline	276
Gross Afordable Units	251

	HCC	**RBC**	**TOTAL**
Payment for net additions	£96,516	£386,063	£482,579
Afordable Units Premium (£350)	£17,570	£70,280	£87,850
TOTAL NHB	**£114,086**	**£456,343**	**£570,429**

Chart 1b – Total New Homes Bonus allocations



<u>Other Government Funding</u>

3.16 Alongside the finance settlement, the government has confirmed the amount of Homelessness Grant that the Council will receive in 2020/21, with further funding announced in support of Housing Benefit.

- £387k Homelessness Funding (£287k Flexible Homelessness Support Grant, £100k Reducing Homelessness Grant)
- £318k DWP Funding in support of Housing Benefit (£277k Housing Benefit Administration Subsidy Grant, £41k New Burdens funding)

3.17 The table below provides an overview of the overall position in respect of Government funding. Section 4 of this report provides further information on the current consultation around government funding and hence, the inherent risk in forecasting for 2020/21 and 2021/22.

Table 2 – Government Funding forecasts

Government Funding	**2019/20 (£'000)**	**2020/21 Forecast (£'000)**	**2021/22 Forecast (£'000)**	**2022/23 Forecast (£'000)**	**2023/24 Forecast (£'000)**
Business Rates Retention	3,836	3,625	2,561	2,610	2,662
Revenue Support Grant	0	0	0	0	0
Subtotal	**3,836**	**3,625**	**2,561**	**2,610**	**2,662**
New Homes Bonus	1,010	1,169	550	211	0
Other Grants	145	267	0	0	0
TOTAL Government Funding	**4,991**	**5,060**	**3,111**	**2,821**	**2,662**

Note: Business Rates Retention figure includes Baseline funding, Section 31 Grants and calculation of the levy payable on growth above the baseline. The forecast for 2021/22 reduces due to the baseline reset, which for the purposes of budgeting is estimated to reduce by 30% to 40%. Paragraph 4.11 sets out the assumptions made in the forecast for business rates income and New Homes Bonus.

4. LOCAL GOVERNMENT FINANCE – 2021/22 and beyond

4.1 Members will be aware that the Government announced that significant changes to local government funding had been postponed until April 2021.

4.2 The changes were due to come into effect from April 2020, but in part due to a lack of parliamentary time and concern around the transformational impact these changes would have, the changes have been pushed back a year to April 2021.

4.3 A consultation paper *"A review of local authorities' relative needs and resources"* was published in late 2018 and set out the Government's latest proposals on the Fair Funding review (FFR). This deals with the complex calculation of the funding formulae that are used to allocate resources across the different local government sectors (referred to as 'funding blocks').

4.4 The relative needs of each authority are supported by a number of different datasets, indicators and other formulae that drive the needs analysis, which in turn provides the assessment of funding. Updated datasets and statistical analysis of deprivation, population estimates and population density, for example, will see changes in this assessment of funding. The intention is to focus on cost drivers – indicators that measure the (relative) cost of providing services rather than indicators that measure 'need'.

4.5 In terms of resources, the overall funding formula will also take account of the resources available locally to individual authorities. This principally relates to the 'council tax base' – each authority's capacity to raise revenue locally. The formula will express the resource element as a negative number. In basic terms, this will mean that authorities with higher local resources will lose more funding, and authorities with fewer local resources will lose less.

4.6 There is likely to be some form of transitional arrangement (damping) to provide some time-limited mitigation for those authorities who gain or lose the most under the new funding arrangements.

4.7 The second consultation paper covered Business Rates Retention Reform and the move to a 75% Business Rates Retention scheme, with change to the business rates system being fiscally neutral.

4.8 There were a number of issues raised in the consultation around the balance or risk and reward in the system, the timing, frequency and extent of baseline resets, and how to better manage the volatility in the system (e.g. Appeals).

4.9 Further detailed work has been undertaken during 2019/20 which looked into the design of the 75% system, but also considered whether a more simplified scheme would better serve local government. The simplified scheme would remove large elements of risk from business rates and would provide a more stable and predictable funding source. However, the trade-off is around how growth in each local authority area is treated. Under a simplified system, the local authority would not have the same growth incentive that exists under the current 50% system.

4.10 Whilst these consultations are distinct and separate, they will both have a transformative effect on the distribution of local government funding between tiers and geographic areas. The outcome of these changes will have a significant impact on the MTFS and budget setting process for 2021/22 and beyond.

4.11 In summary, the approach taken in forecasting the level of Government funding over the medium term recognises the redistribution of resources from lower-tier authorities to upper-tier authorities to help fund social care. The Fair Funding Review and introduction of 75% Business Rates Retention will move funding between tiers. The forecast assumes:

- New Homes Bonus does not continue, with only legacy payments being made.
- Although the Government have signalled their intent to replace NHB with a new reward system, the MTFS does not anticipate any future funding from the new scheme.
- Business Rates Retention – system will be ‘reset’ from April 2021 as the outcome from FFR and 75% BRR are introduced. For the purposes of the MTFS, a reduction in retained business rates income of 35% is expected.
- The MTFS does not take into account or attempt to estimate the value of any transitional funding arrangements that may arise from April 2021. The scale of the reduction in funding for Rushmoor and other authorities may require the government to provide some protection through a system of floors and ceilings, as has been provided under previous structural changes to local government funding. However, there is no way of estimating what these arrangements may be – how long they would be in place and at what level the floors and ceiling would operate at.
- The MTFS also assumes that Business Rates remains in place. There is pressure from business for an alternative to Business Rates given its perceived unfairness to certain sectors.

5. MEDIUM-TERM FINANCIAL FORECAST 2019/20 – 2021/22

5.1 The Medium-Term forecast has been updated to ensure that budget decisions for 2020/21 are taken in light of relevant information and considers the future financial climate the Council will face. The focus is on estimating the future revenue budget position of the Council taking into account a number of factors and issues detailed below. A more detailed MTFS is shown after paragraph 12.6 of this report.

Table 3 – Medium Term Financial Forecast

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Portfolio Net Expenditure	10,179	8,753	8,429	8,313	8,313
Corporate Items	(1,093)	2,688	5,113	7,144	7,786
Adjusted Budget	**9,085**	**11,441**	**13,542**	**15,458**	**16,099**
Additional Items	251	909	692	692	692
Budget Proposals	0	376	26	26	26
Risk items	0	0	750	1,350	1,600
Savings Plan	(444)	(1,436)	(3,567)	(5,196)	(6,201)
Draft Net Revenue Budget	**8,893**	**11,290**	**11,444**	**12,330**	**12,216**
Funded by:					
Council Tax	6,409	6,705	6,933	7,166	7,403
Business Rates	3,836	3,625	2,561	2,610	2,662
New Homes Bonus	1,010	1,169	550	211	0
Other Funding	541	(4)	0	0	0
TOTAL Funding	**11,797**	**11,495**	**10,044**	**9,987**	**10,065**
Core Surplus / (Deficit)	**2,904**	**205**	**(1,400)**	**(2,343)**	**(2,152)**
Additional transfers					
to Commercial Property Reserve	(2,000)				
to Stability & Resilience Reserve					
to Service Improvement Fund		(205)			
to Regeneration	(450)				
to Regeneration/Commercial DD	(250)				
to Workforce Planning	(200)				
Core Surplus / (Deficit) after Transfers	**4**	**0**	**(1,400)**	**(2,343)**	**(2,152)**

Note – Table may contain rounding when compared to Appendix 1

5.2 Portfolio budgets have been revised for 2019/20 and 2020/21, along with forecasts of Corporate Items. Inflationary provision has been included as a separate item and assumes:

- Pay inflation of 2% and an assumption of the impact of pay increments
- Price inflation on major contracts
- Changes to the Council's contribution to the Local Government Pension Scheme

5.3 Corporate Items covers the non-service revenue expenditure and income that is included in the Council's General Fund.

5.4 The MTFS includes an estimate of the additional cost of borrowing as interest rates increase. As set out in the Treasury Management Strategy, external short-term borrowing has been taken to finance commercial property and regeneration site acquisition. This takes advantage of current low interest rates, with a planned move to longer-term external borrowing as interest rate rises are expected over the medium term. Advice will be sought from the Council's Treasury Management advisors Arlingclose, in terms of timing, maturity profile and debt composition.

5.5 It is worth noting that the 1% increase in PWLB borrowing rates from October 2019 has increased the cost of borrowing over a longer-term period. The tables below show the increase in rates for different borrowing periods for maturity loans and the increase in borrowing costs.

Table 4 – PWLB rates (impact of increase)

Period (years)	Certainty Rate on 08 October 2019 (%)	Certainty Rate 21 January 2020 (%)	Change (%)
5 year PWLB Maturity loan	1.00	2.23	+1.23
10 year PWLB Maturity loan	1.19	2.46	+1.27
20 year PWLB Maturity loan	1.72	2.96	+1.24
30 year PWLB Maturity loan	1.76	3.00	+1.24
40 year PWLB Maturity loan	1.65	2.90	+1.25
50 year PWLB Maturity loan	1.61	2.87	+1.26

Interest on £5m (total interest paid over duration of loan term)

Period (years)	Certainty Rate on 08 October 2019 (£'000)	Certainty Rate 21 January 2020 (£'000)	Change (£'000)
5 year PWLB Maturity loan	300	608	308
10 year PWLB Maturity loan	695	1,330	635
20 year PWLB Maturity loan	1,920	3,160	1,240
30 year PWLB Maturity loan	2,940	4,800	1,860
40 year PWLB Maturity loan	3,700	6,200	2,500
50 year PWLB Maturity loan	4,525	7,675	3,150

5.6 As set out in the Annual Treasury Management Strategy, the Council's borrowing strategy is *"to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required".*

5.7 The MTFS includes estimates of the borrowing costs arising from the financing of the capital programme. Further provision is made within the MTFS to ensure the Council can mitigate the refinancing risk of its current loan portfolio.

5.8 Estimates of interest receivable on other investments remain robust. The Council continues to hold up to £25m in Pooled Funds, which are performing well. Investment income of £1.6m has been forecast across the MTFS from Treasury Management activities. This will be kept under review in terms of the overall cash position of the authority and the impact of forecast interest rate rises.

5.9 The MTFS includes planned transfers to and from earmarked reserves to support spending commitments included in the revenue budget, to provide adequate mitigation against risks, or to ensure funding is set aside in a ring-fenced reserve (e.g. SANG and s106 contributions). Section 6 of this report covers Balances and Reserves in more detail.

5.10 As outlined in paragraphs 3.12 to 3.15 in the report, future NHB allocations will be at a reduced level as the legacy payments taper out. For the purposes of the MTFS forecast, it has been assumed that no further NHB will be received other than the legacy payments. The Council has been reliant upon NHB payments to fund services as Revenue Support Grant reduced.

5.11 Table 2 indicated a reduction in the level of retained business rates for Rushmoor from 2021/22. The move to a 75% Business Rates Retention scheme will involve a 'system reset' that is likely to remove a significant part of the business rates growth accumulated since April 2013. The MTFS assumes a 30% to 40% reduction as the funding baseline is reset.

5.12 Further changes to the Business Rates system are likely, with the Government indicating that the level of support for the Retail sector will be provided through an increase in the level of relief being provided.

5.13 Other changes that may impact on the level of business rates income in the future concern the introduction of a new rating list from April 2021 and reducing the length of time between rating lists with a more frequent revaluation period of 3 years proposed instead of the current 5-year period.

6. BALANCED BUDGET REQUIREMENT

6.1 The Council is legally required to set a balanced budget for the following financial year. As can be seen in the MTFS, the Council's core financial position is a balanced budget next year (after transfers to reserves), with a projected deficit of £1.4m from 2021/22, increasing to around £2.3m in 2022/23. An important part of the strategy for financial sustainability will be to continue to deliver efficiencies and savings over the coming years.

<u>Savings Plan</u>

6.2 The table below provide members with an update on the Savings Plan. A number of savings targets are included in the Savings Plan which take into account the focus on a number of key projects

- ICE
- Commercial Property Investment
- Pipeline savings

6.3 The Council has a good track record of delivering budget and efficiency savings, and this must be sustained over the medium term to enable the Council to meet its balanced budget requirement in future years and to be financially resilient.

6.4 There is an inherent risk with savings targets – there is a risk that these will not be achieved in full or in the timeframe required which would put additional financial pressure on the Council. The Savings Targets have been profiled to some degree to take into account the challenges around delivery.

6.5 The Savings Plan will be subject to regular review during the coming financial year to ensure they remain on target and to enable the Council to respond to any potential shortfall against the savings targets.

6.6 As stated in the budget report last year, the Council is increasingly reliant on income from Commercial Property to balance the budget. The Savings Plan includes additional income from further acquisitions and has been forecast in line with expectations set out in the Commercial Property Investment Strategy.

6.7 In addition to the focus on Commercial Property income, the Savings Plan can be seen as more reliant on income generation and organisational redesign. The Council will need to ensure the Savings Plan remains balanced, with an appropriate mix of cost control, income generation, and service review to mitigate against the risk of becoming over reliant on a narrow savings programme.

6.8 It is worth noting that the Savings Plan does not resolve the deficit position forecast over the MTFS period. Whilst the Council may benefit from further Government Funding (e.g. transitional arrangements from 2021/22, NHB replacement), the downward trend in Government funding will frame he Council's revenue budget in future years.

6.9 Therefore, it is recommended that the Council continues to review not only the cost of services but considers the nature and scope of services beings delivered.

Table 5 – Savings Plan (February 2020)

Estimated Savings	**2020/21 (£'000)**	**2021/22 (£'000)**	**2022/23 (£'000)**	**2023/24 (£'000)**
2019/20 Savings	(81)	(81)	(81)	(81)
Reversal of 2019/20 Additional Items	(130)	(160)	(160)	(160)
ICE Programme (Workstreams 1-3)	(150)	(425)	(750)	(810)
ICE Programme (Workstream 4)	(50)	(225)	(500)	(750)
Commercial Property - Rental income expectations *	(887)	(1,698)	(2,377)	(2,922)
Pipeline Savings - Enhanced Commercial Property		(300)	(300)	(300)
Pipeline Savings - Major contracts		(300)	(450)	(600)
Pipeline Savings - Service Loans to Housing Company *	(88)	(328)	(528)	(528)
Salaries monitoring	(50)	(50)	(50)	(50)
TOTAL Savings Plan	**(1,436)**	**(3,567)**	**(5,196)**	**(6,201)**

Notes:

* The savings figures included in the table represent the Gross saving. The new commercial property acquisitions and the service loans to the Housing Company will result in a cost to the Council. This has been provided within the Corporate Items section of the MTFS.

Balances and Reserves

6.10 Members will recall that as part of the 2019/20 budget setting process a Commercial Reserve was established to provide a source of funding to mitigate potential fluctuations commercial property income. The Council has acquired further commercial property during 2019/20 and plans to undertake a further £60m of acquisitions over the Capital Programme period. The level of the reserve will need to increase in-line with the financial risks associated with the commercial property portfolio. It is proposed that an annual contribution to the Commercial Property reserve of 0.5% of yield (around £550k based on gross rental income of £6m) is included in the MTFS, net of expected annual expenditure.

6.11 The Council's financial position is supported by its balances and reserves as set out below:

6.12 The Budget Strategy sets a target for the General Fund balance to be maintained at a minimum of £2m, with the Stability and Resilience Reserve balance held at a level that would allow the Council to mitigate short-term fluctuations in income and expenditure (e.g. Business Rates, Government funding changes). However, they should not be utilised to fund normal, on-going service provision. It is important to review the level of reserves regularly.

6.13 The Service Improvement Fund has been drawn upon to provide funding for the ICE programme and to support key projects that underpin the Council's plan for financial sustainability. It is not proposed to amend level of the Fund but will be reviewed at the end of the current financial year.

6.14 As highlighted earlier in the report, there is an increased level of risk and uncertainty facing the Council over the medium term. Therefore, it is proposed that the following additional reserves are created:

- Pensions
- Regeneration
- Regeneration (Professional Advice and Due Diligence)
- Workforce Strategy

6.15 The Medium-Term Financial Strategy 2020/21 to 2023/24 report to Cabinet in October 2019 provided members with an update on the Local Government Pension Scheme (LGPS).

6.16 During the Autumn of 2019, the draft funding results from the Local Government Pension Fund actuarial review were provided by Hampshire County Council Pension Team. This indicated that the overall funding position of the Hampshire scheme had improved significantly since 2016. As a result of the improved position and due to structural changes to the way employers are grouped together for funding purposes, the total employer contribution required from Rushmoor is less than over the previous 3-year period. Total contributions from 2020/21 to 2022/23 are estimated at £6.7m and is £2.4m less than the provision made in the October 2019 MTFS.

6.17 However, given the short-term nature of the funding window (3 years) but the long-term nature of the pension fund liability, it is recommended that the reduction in budgeted provision is not released to the General Fund but is transferred to a new Pensions Reserve. The next actuarial review will take place during 2022/23 with revised results due in Autumn of 2023. It would then be appropriate to review the level of funding held to cover the cost of employer pension contributions. For the purposes of the MTFS, it is assumed the pension fund contribution continues to increase in 2023/24 at a similar rate.

6.18 Negotiations between Marks and Spencer and the Council concerning the lease surrender of 38-46 Union Street, Aldershot concluded in early January 2020. A revenue payment of £900k was received by the Council and it is proposed that the receipt is allocated to earmarked reserves as set out below:

6.19 £450k to provide a revenue and capital funding for the wider Regeneration Programme. The reserve would enable further work to be completed on site assembly and facilitate delivery of the Council Business Plan around the regeneration of Aldershot and Farnborough town centres.

6.20 £250k to provide revenue funding associated with the due diligence on regeneration schemes as they come forward. As section 8 of the report sets out, a number of capital schemes will come forward for Cabinet and Council to consider. It is critical that the Council has the right resources and expertise in place so that a comprehensive process of due diligence is undertaken on each potential scheme. This would include legal, property and financial advice including evaluating assumptions made, market analysis and legal structures required to facilitate delivery.

6.21 Members will recall that the Peer Review highlighted a need for the Council to develop a Workforce Strategy, which is being currently developed. The ICE Transformation Programme approved by Cabinet in October 2019 forms an integral part of the Council's Savings Plan. It is proposed that £200k of revenue funding is set aside in the new Workforce Strategy reserve to provide funding to support the organisation redesign projects and ensure that staffing service changes can be funded without disturbing the savings plan.

6.22 If approved, the impact of these proposed changes to the level of balances and reserves is set out in the table below:

Table 6 – Balances and Reserves forecast

Balances and Reserves	2019/20 Opening Balance (£'000)	2019/20 Forecast (£'000)	2020/21 Forecast (£'000)	2021/22 Forecast (£'000)	2022/23 Forecast (£'000)	2023/24 Forecast (£'000)
General Fund Balance	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Stability & Resilience Reserve	(4,869)	(4,869)	(4,869)	(4,869)	(4,869)	(4,869)
Service Improvement Fund	(1,000)	(40)	(245)	(245)	(245)	(245)
ICE Reserve`		(618)	(212)	0	0	0
Commercial Reserve	(475)	(2,000)	(2,050)	(2,100)	(2,150)	(2,200)
Climate Emergency *	0	0	(250)	0	0	0
Deprivation Strategy Support *	0	0	(100)	0	0	0
Regeneration Reserve	0	(450)	(280)	(280)	(280)	(280)
Regeneration/Commercial Due Dilligence	0	(250)	(250)	(250)	(250)	(250)
Workforce Strategy	0	(200)	(200)	(200)	(200)	(200)
Pension Fund Equilisation (Para 6.16-6.17)	0	0	(669)	(1,487)	(2,447)	(3,549)
All Other Earmarked Reserves **	(5,721)	(6,099)	(5,657)	(5,621)	(5,800)	(5,800)
Estimated Balances at 31 March	**(14,064)**	**(16,525)**	**(16,781)**	**(17,051)**	**(18,240)**	**(19,392)**

Notes:

* It is assumed that expenditure proposals are agreed during 2020/21 with the earmarked reserves fully utilised

** This includes all other earmarked reserves including s106 and SANG balances. It is likely that the level of these reserves will increase over the next 3-4 years as the charge payable for the Southwood SANG is collected.

6.23 Whilst the level of balances and reserves shown in the table indicates that the Council is in a good financial position, the cumulative core deficit of £5.895m over the MTFS period (as shown in Table 3 and referenced in paragraph 6.1), would reduce the Stability and Resilience Reserve considerably. It is estimated that the Stability and Resilience Reserve would be depleted during 2023/24 if further savings or additional income is not secured.

7. GENERAL FUND REVENUE BUDGET 2020/21

7.1 The proposed General Fund Revenue budget for 2020/21 takes into account the issues highlighted earlier in the report.

7.2 The General Fund Revenue Budget Summary is set out in Appendix 1; the detailed revenue budgets in portfolio order are shown at Appendix 2.

7.3 The proposed General Fund Revenue Budget will enable the Council, in broad terms, to maintain current service delivery while identifying reductions in the level of net expenditure of £1.4m to be delivered during 2020/21. This reduction is largely due to anticipated levels of income from the Council's commercial property acquisitions.

7.4 The General Fund Summary shows that the risk-based revenue balance will be maintained at £2.0m by the end of 2020/21.

<u>Council Tax</u>

7.5 The referendum threshold for 2020/21 for Shire Districts such as Rushmoor is 2% or £5 (whichever is the greater). This is a reduced threshold level when compared to previous year when it was set at 3% or £5.

7.6 The Spending Power calculation published with the Local Government Finance Settlement assumed that all authorities will raise their Council Tax towards the maximum allowable amounts. Factoring such increases into the funding assessment, removes flexibility for local authorities to take local decisions about tax levels and to use increases in local taxation to offset local spending pressures. Councils now need to make these increases just to keep total funding levels at a standstill.

7.7 The revenue budget assumes a £5 increase in a Band D charge for Council Tax, which falls within the permissible level of increase before triggering a local referendum and equates to an increase of around 10 pence per week for a Band D property.

7.8 A council tax rise of £5 increases the Band D rate from £204.42 to £209.42 and will generate approximately £296k in additional council tax revenue annually (when taken with estimated changes to the taxbase). Whilst it is unclear whether the ability to increase Council Tax by up to 2% or £5 will continue beyond 2020/21, the MTFS assumes an increase of £5 per annum. This would generate an additional £994k over the MTFS.

7.9 Cabinet considered the report from the Council Tax Support Task and Finish Group at their meeting on 16 December 2019 (Report No: FIN1934). The Group recommended that no changes should be made to the Council Tax Support Scheme for 2020/21. This would mean that the minimum contribution would remain at 12%. Additionally, it was recommended that a fundamental review of the Scheme should be started in 2020, specifically to consider the impact of the roll out of Universal Credit on Rushmoor residents and the Council, to look at improvements to reduce the administrative burdens on the Council and to make the Scheme easier to understand for the customer. Cabinet accepted the proposal from the Group, the impact of which is included within the estimates on the Council Taxbase for 2020/21.

7.10 The taxbase for 2020/21 has been estimated at 32,015.23 and represents an increase of 663.02 (2.11%) over the 2019/20 position.

7.11 The Council Tax Collection Fund is estimated to be in surplus by the end of the current financial year by £841k. This is shared across the major precepting authorities (Hampshire County Council, Hampshire Police and Crime Commissioner, Hampshire Fire and Rescue Authority). Rushmoor's share is £101k

7.12 The Council Tax base and surplus were agreed under delegated powers by the Council's Section 151 Officer, in consultation with the Leader of the Council, during January 2020.

7.13 The decision to set Council Tax remains an annual decision for Council to consider when setting the budget one year from the next.

7.14 Even factoring in these increases, the Medium-Term forecast shows a potential deficit in 2021/22 of around £1.4m, putting significant pressure on the Council to deliver the right combination of cost reductions and increased income to bridge the gap.

Business Rates Retention

7.15 As highlighted in paragraphs 3.6 to 3.11 of the report, Final estimates for Business Rates will be completed by 31 January 2020 and updated to Members prior to budget setting. The extent of volatility in the business rates system continues to support the need for sufficient reserves to meet any unforeseen shocks to the system

New Homes Bonus

7.16 The proposed budget for 2020/21 contains the provisional allocations issued alongside the Settlement of £1.169m.

Other Funding

7.17 The revenue budget also includes grant funding of £387k in support of homelessness and £318k in relation to the administration of Housing Benefit. This funding is fully committed against the revenue budget.

Additional items

7.18 In view of the on-going financial constraints in which the Council is operating, additional items for inclusion in the budget were scrutinised carefully by both the Corporate Leadership Team (CLT) and Cabinet as part of the budget setting process. These requests for both one-off items of expenditure in 2020/21 and on-going expenditure are detailed in Appendix 3, with a summary below of the key prioirity areas.

7.19 The inclusion of these additional items will help the Council deliver the Savings Plan and the priorities around Town Centre Regeneration in particular. Direct funding from SANG/s106 contributions has been identified and applied to the revenue budget.

7.20 Other items of supplementary expenditure may be agreed during 2020/21 as the Council reacts to changing conditions or levels of demand, for example. Each item will be reviewed individually as part of the normal in-year process through CLT and Cabinet, in line with current financial regulations

Budget Proposals/Growth Items

7.21 The proposed budget includes budget proposals and growth items that provide certainty of funding to support key Council priorities.

- Climate Emergency
- Deprivation Strategy
- Ward Budgets

7.22 At its meeting on 20 June 2019, the Council passed a motion acknowledging a Climate Emergency and agreed to develop a plan to enable a green and sustainable Rushmoor, and a carbon-neutral Council by 2030.

7.23 It is proposed that £250k of funding is set aside in a new Climate Change reserve to enable the Council to deliver against the plan as it develops during the coming year.

7.24 The Policy and Project Advisory Board have been considering the data published in the 2019 Index of Multiple Deprivation and policy implications of the updated indicators for the Council. A Deprivation Strategy will be completed in 2020/21 and considered by the Cabinet. It is proposed that £100k of funding is set aside in a new Deprivation Strategy reserve to support actions arising from the agreed strategy.

7.25 The final proposal is to increase Ward Budgets from £1,000 per ward to £3,000 per ward taking the total amount across the Borough from £13,000 to £39,000 – an increase of £26,000.

8. CAPITAL PROGRAMME 2019/20 to 2023/24

8.1 The Council's capital programme is set out in Appendix 4 of this report, with a total capital expenditure budget of £52.226m in 2020/21

8.2 The capital programme continues to focus on delivering against the Council's key priorities, including Town Centre Regeneration, Income generation schemes, enhancing the delivery of core services through improvement and enhancement of assets. The programme also includes support for the provision of local housing and the Council's statutory duties in respect of Disabled Facilities Grants.

8.3 The Council has embarked upon an ambitious programme of regeneration and investment in commercial property. Further investment in commercial property of £67m is anticipated over the next 5 years, with investment income forming a core element of the Council's Savings Plan.

8.4 The Capital Programme, as set out in this report, does not includes updated estimates for the Town Centre Regeneration schemes, although some provision is already included in the Capital Programme. Detailed proposals for each regeneration scheme will need to be considered by Cabinet and Council and it is likely each scheme will have significant legal and financial implications. The Capital Programme and Treasury Management Strategy will need to be updated to reflect decisions taken by Cabinet and Council.

8.5 The Council is committed to bringing forward the schemes as broadly set out below. Indicative estimates are shown to enable members to understand the scale of each scheme. It is important to note that the figures below give a broad indication of the relative scale of each scheme. Scheme may be delivered in phases, with options put forward around certain key sites within the schemes. The figures do not necessarily represent the Council's financial commitment, as there will be a number of financing options to consider that reduce and mitigate financial risks on the schemes.

- Union Street East: £40m to £50m
- Leisure Centre: £25m to £40m
- Civic Quarter: £100m to £150m

Table 7 – Summary Capital Programme

Capital Expenditure by Portfolio	2019/20 Original Estimate (£'000)	2019/20 Revised Estimate (£'000)	2020/21 Estimate (£'000)	2021/22 Estimate (£'000)	2022/23 Estimate (£'000)	2023/24 Estimate (£'000)
Corporate and Democratic Services	1,224	1,287	0	0	0	0
Customer Experience and Improvement	321	186	125	105	55	30
Major Projects and Property	65,056	45,609	49,367	43,761	12,572	12,078
Operational Services	3,510	3,045	2,689	1,211	1,211	1,211
Planning and Economy	120	220	0	50	0	0
ICE Programme	0	281	45	0	0	0
TOTAL Capital Programme	**70,231**	**50,629**	**52,226**	**45,127**	**13,837**	**13,318**

8.6 Implementation of the core programme in 2020/21 will require the use of Council resources, largely through borrowing (£44.210m) together with £8.017m use of grants and contributions including Better Care Fund and an element of developers' s106 contributions.

9. RISK

9.1 There are a number of financial risks that the Council will face over the medium-term. The 2020/21 Budget and the MTFS have been prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.

9.2 For Local Government, the key risk is around the nature and scope of local government funding from central government from 2021/22. This report has outlined the key changes that are due to be introduced from April 2021 – 75% business rates retention model and the Fair Funding review. These will bring significant changes to this Council's finances in future years.

9.3 It is very difficult to estimate the impact on Rushmoor. Fundamental changes to the way in which each Council's needs are assessed and funded are difficult to model despite some engagement from Government with local authorities. Therefore, considerable risk and uncertainty remains in the estimates for 2021/22 and beyond.

9.4 The budget has been prepared in light of key financial risks facing the Council over the medium- term, principally:

- Business Rates Retention Scheme – variability, appeals provision, revaluation, moves towards a 75% local retention scheme with a baseline reset and Fair Funding Review
- New Homes Bonus scheme design in 2021/22 at a time this Council will be delivering a significant number of new homes.
- Treasury management issues including interest rates, level of capital expenditure, use of internal resources, borrowing costs. Provision has been made within the MTFS for this risk.
- Impact of the UK leaving the European Union

- Forecasts have been made concerning the impact of Hampshire County Council's proposals on Waste and Recycling included in their Transformation to 2021 programme. Provision has been made within the MTFS for this risk.
- Financial impact of the Capital Programme on the revenue budget – the affordability of the capital programme and future schemes needs to be carefully considered (see paragraphs 5.5 and 5.6 on PWLB rate increase)

10. STATEMENT OF THE CHIEF FINANCIAL OFFICER

10.1 Section 25 of the Local Government Finance Act 2003 places a statutory duty on the Chief Financial Officer to report to the authority, at the time the budget is considered, and the council tax is set on the robustness of the budget estimates and the adequacy of the financial reserves. The Act requires councillors to have regard to the report in making decision at the Council's budget and rent setting, and the council tax setting meetings.

10.2 The Council's Revenue Budget, Medium Term Financial Strategy and Capital Programme have been prepared with reference to the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance on prudential property investment. As Section 151 Officer, I have also had regard to CIPFA's Financial Resilience Index and the CIPFA Financial Management Code.

10.3 The basis on which the budget for 2020/21 and the MTFS have been prepared has been set out clearly in this report. I am satisfied that the budgets for the General Fund and the Capital Programme have been based on sound and reasonable assumptions.

10.4 The report does set out the core deficit position the council is facing over the MTFS. Progress has been made during the year with a number of savings already identified and being delivered, and a number of savings targets. The council will still be relying on income from commercial property investments and reserve balances to support expenditure plans over the MTFS. The Savings Plan is core to the delivery of financial sustainability, but it important to note that the deficit continues to increase over the medium term.

10.5 It is important that the council is able to balance the budget over the medium term in a sustainable and manageable way through a combination of income, sensible use of reserves and a robust savings plan. Therefore, an ongoing and continuous savings plan, that identifies further budget and efficiency savings over and above those indicated in this report will need to be brought forward into the MTFS.

10.6 The current savings plan includes a target level of savings to be achieved over the medium term. These include commercial property income and organisation modernisation and redesign. There is a risk associated with savings targets. Should these savings not materialise at the level or within the timeframe assumed this will increase the pressure on the Council balances and reserves. The Council will need to identify further savings or ways of reducing spend/increasing income to mitigate this risk.

10.7 Some risks remain, particularly around the economic and financial impact of Brexit. Whilst the country will leave the European Union on 31 January 2020, there remains considerable uncertainty over the MTFS period around the impact this will have on both the national and local economy as further negotiations take place with the EU around the UK's future relationship and any trade deal.

10.8 Risks around inflation and interest rates also remain and may be inexorably linked to leaving the EU. Allowance has been made in the MTFS estimates for inflationary pressures in the General Fund. Future interest rate increases are expected over the medium term, and this must be considered when assessing the level of return on commercial property investments.

10.9 Changes made in April 2013 to the way in which local government is financed could have a material effect on the council's finances if not managed over the MTFS. The council has adopted a local Council Tax Support (CTS) scheme that provides an affordable level of support to local residents. The Council will need to consider the potential impact in future years of increases to claimant numbers if there is a negative economic impact from exiting the EU in January 2020. The Council would need to review the design of the scheme or find equivalent savings across the general fund to mitigate any financial impact.

10.10 The localisation of business rates through the Business Rates Retention scheme does pose a financial risk to the council on two levels. Firstly, that the level of business rates income budgeted for in the MTFS does not materialise. Secondly, the level of backdated appeals remains a significant area of uncertainty. Whilst allowance is made within the calculation of retained business rates income for backdated appeals, these losses could be higher than projected. The introduction of the new rating list in April 2017 and the 'check, challenge, appeal' process has to date reduced the level of new appeals coming through the system. A review of the provision for appeals will be undertaken when completing the NNDR1 and NNDR3 returns which will help mitigate this risk.

10.11 The move to a new local government finance system through 75% Business Rates retention in 2021/22 is difficult to quantify financially. Taken alongside the potential impact of the Fair Funding Review, there is a significant risk to the level of government support to the Council in future years. Pressures faced by authorities with social care responsibilities may see funding shifted from District/Borough authorities to upper-tier authorities.

10.12 For Rushmoor, the future of New Homes Bonus is a significant financial risk with no indication as to what will replace the current system. This is especially pertinent given the anticipated increase in the number of new homes being delivered in the Borough over the next 3 years.

10.13 The General Fund is forecast to remain within range of balances approved in previous financial strategies. The Stability and Resilience Reserve set up during 2012/13 provides a resource to allow the Council to react to the increase in risk and uncertainty it faces over the medium-term and any consequential adverse effect on its financial position. If further savings or reductions in expenditure are not identified and delivered over the medium term, it is likely that the Stability and Resilience reserve will be depleted during 2023/24.

10.14 The Service Improvement Fund, ICE Reserve and the current freedoms over use of capital receipts, also support the Council's endeavour to achieve a sustainable financial position over the medium-term, by supporting key projects, which deliver significant financial benefit to the organisation.

10.15 These proposals will enable the Council to meet the challenges of achieving a balanced budget in the current year, to be protected from potential volatility in its finances and to reshape the organisation to be sustainable over the longer-term.

10.16 In conclusion, I am satisfied that the budget is robust and is supported by adequate reserves.

11. CONSULTATION

11.1 All Members of the Council were invited to a budget seminar on the 20 January 2020 to discuss the budget proposals and the full budget report is available online. Key issues have been highlighted in presentations to various local interest groups.

12. CONCLUSIONS

12.1 Despite the uncertainties around future levels of Government Funding, and the risks around Brexit and the general economic position, the Council has been able to prepare a sound budget whilst maintaining services to residents. The budget will also provide a platform for Rushmoor to address future challenges.

12.2 The budget has been prepared in accordance with the approved budget strategy. This includes the principle of maintaining the Council's general fund revenue risk-based balance at £2m and maintaining other usable reserves to mitigate risk and support improvement.

12.3 The budget allows for the implementation of essential additional revenue items and a substantial capital programme of approximately £52.226m in 2020/21.

12.4 The budget proposals provide for the current Council Tax level to increase by £5 for a Band D property (from £204.42 per annum to £209.42) – an increase of around 10p per week) in line with government assumptions within its settlement funding formula.

12.5 In order to achieve this, the budget proposals will require the implementation of budget savings of £1.436m in 2020/21, together with further savings over the medium term, totalling approximately £16.4m over the period 2020/21 to 2023/24 (cumulative and recurring total). This will require reductions in the Council's service expenditure, and increased income generation, in accordance with the Medium-Term Financial Forecast and the Financial Strategy.

12.6 Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing, which will be monitored and reported to Cabinet throughout 2020/21.

Background documents:
Medium Term Financial Strategy 2020/21 to 2023/24

Report Author:
David Stanley, Executive Head of Finance, david.stanley@rushmoor.gov.uk 01252 398440

Medium Term Financial Strategy (February 2020)

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Corporate & Democratic Services	5,422	5,289	5,322	5,322	5,322
Customer Experience & Improvement	41	19	26	26	26
Major Projects & Property	(4,544)	(4,928)	(5,248)	(5,248)	(5,248)
Operational Services	7,951	7,847	8,061	8,061	8,061
Planning & Economy	2,830	2,548	2,604	2,604	2,604
ICE	468	496	150	0	0
Portfolio Net Expenditure	**12,168**	**11,272**	**10,915**	**10,765**	**10,765**
Less: Capital Charges (Rev)	(1,802)	(1,859)	(1,859)	(1,859)	(1,859)
Less: Pension Adj (Rev)	(187)	(660)	(627)	(592)	(592)
Net Expenditure	**10,179**	**8,753**	**8,429**	**8,313**	**8,313**
Corporate Items (MRP, Interest etc)					
Transfers To/From reserves	(458)	396	1,029	1,176	1,318
Other CI&E	(1,325)	342	342	342	342
MRP	1,410	2,180	3,398	4,415	4,415
Interest Payable	880	1,370	1,944	2,311	2,311
Investment Income	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)
Subtotal	**(1,093)**	**2,688**	**5,113**	**6,644**	**6,786**
Adjusted Budget	**9,085**	**11,441**	**13,542**	**14,958**	**15,099**
Inflationary Provision, Pension costs					
Inflation (Pay)				300	600
Inflation (Contracts/Non-Pay)				200	400
Subtotal	**0**	**0**	**0**	**500**	**1,000**
Adjusted MTFP Position	**9,085**	**11,441**	**13,542**	**15,458**	**16,099**
Budget Proposals/Growth					
ADDITIONAL ITEMS: Variations in Service	201	695	692	692	692
ADDITIONAL ITEMS: Non-recurring	50	214	0	0	0
BUDGET PROPOSAL: Climate Emergency		250			
BUDGET PROPOSAL: Deprivation Strategy		100			
BUDGET PROPOSAL: Ward Budgets		26	26	26	26
RISK: HCC Waste proposals				350	350
RISK: Interest rate risk on borrowing			750	1,000	1,250
Subtotal	**251**	**1,285**	**1,468**	**2,068**	**2,318**
Savings Plan					
2019/20 Savings	(250)	(81)	(81)	(81)	(81)
Reversal of 2019/20 Additional Items		(130)	(160)	(160)	(160)
ICE Programme (Workstreams 1-3)		(150)	(425)	(750)	(810)
ICE Programme (Workstream 4)		(50)	(225)	(500)	(750)
Commercial Property - Rental Income expectations		(887)	(1,698)	(2,377)	(2,922)
Pipeline Savings - Enhanced Commercial Property			(300)	(300)	(300)
Pipeline Savings - Major contracts			(300)	(450)	(600)
Pipeline Savings - Service Loans to Housing Company		(88)	(328)	(528)	(528)
Salaries monitoring	(194)	(50)	(50)	(50)	(50)
Subtotal	**(444)**	**(1,436)**	**(3,567)**	**(5,196)**	**(6,201)**
Proposed Net Revenue Budget	**8,893**	**11,290**	**11,444**	**12,330**	**12,216**

Item	2019/20 LAB (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)
Proposed Net Revenue Budget	**8,893**	**11,290**	**11,444**	**12,330**	**12,216**
Funded by:					
Council Tax	6,409	6,705	6,933	7,166	7,403
Business Rates Retention	3,836	3,625	2,561	2,610	2,662
Other Funding	145	267			
New Homes Bonus	1,010	1,169	550	211	0
Collection Fund - CT	97	101	0	0	0
Collection Fund - NNDR	299	(371)	0	0	0
TOTAL Funding	**11,797**	**11,495**	**10,044**	**9,987**	**10,065**
Core Surplus / (Deficit)	**2,904**	**205**	**(1,400)**	**(2,343)**	**(2,152)**
Additional Transfers					
to Commercial Property Reserve	(2,000)				
to Stability & Resilience Reserve					
to Service Improvement Fund		(205)			
to Regeneration	(450)				
to Regeneration DD	(250)				
to Workforce Planning	(200)				
Core Surplus / (Deficit) after Transfers	**4**	**0**	**(1,400)**	**(2,343)**	**(2,152)**

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COUNCIL MEETING – 20TH FEBRUARY 2020

AGENDA ITEM NO. 5 (1)

COUNCIL TAX RESOLUTION 2020/21

1. That it be noted that the Council calculated the amount of 32,015.23 as its Council Tax Base for the year 2020/21 in accordance with Section 31B(3) of the Local Government Finance Act 1992 as amended by the Localism Act 2011 (the 'Act').

2. That the following amounts be calculated by the Council for the year 2020/21 in accordance with Sections 31 and Sections 34 to 36 of the Act:

(a) £84,628,917 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act

(b) £77,924,288 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.

(c) £6,704,629 being the amount by which the aggregate at 2(a) above exceeds the aggregate at 2(b) above, calculated by the Council in accordance with Section 31A(4) of the Act, as its Council Tax requirement for the year.

(d) £209.42 being the amount at 2(c) above, all divided by the amount at 1 above, calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year.

(e) **Valuation Bands**

A	£139.61
B	£162.88
C	£186.15
D	£209.42
E	£255.96
F	£302.50
G	£349.03
H	£418.84

being the amounts given by multiplying the amount at 2(d) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

3 That it be noted that for the year 2020/21 Hampshire County Council, the Police and Crime Commissioner for Hampshire and Hampshire Fire and Rescue Authority have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Precepting Authority	**Valuation Bands**	
Hampshire County Council	A	£857.52
(including Adult Social Care precept)	B	£1,000.44
	C	£1,143.36
	D	£1,286.28
	E	£1,572.12
	F	£1,857.96
	G	£2,143.80
	H	£2,572.56

Precepting Authority	**Valuation Bands**	
Police and Crime Commissioner for Hampshire	A	£140.97
	B	£164.47
	C	£187.96
	D	£211.46
	E	£258.45
	F	£305.44
	G	£352.43
	H	£422.92

Precepting Authority	Valuation Bands	
Hampshire Fire and Rescue Authority	A	£46.04
	B	£53.71
	C	£61.39
	D	£69.06
	E	£84.41
	F	£99.75
	G	£115.10
	H	£138.12

4. That, having calculated the aggregate in each case of the amounts at 2(e) and 3 above, the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2020/21 for each of the categories of dwellings shown below:

Valuation Bands	
A	£1,184.14
B	£1,381.50
C	£1,578.86
D	£1,776.22
E	£2,170.94
F	£2,565.65
G	£2,960.36
H	£3,552.44

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ANNEX 2

COUNCIL MEETING – 20 FEBRUARY 2020

AGENDA ITEM NO. 5 (2)

ANNUAL CAPITAL STRATEGY 2020/21

A report from the meeting of Cabinet held on 4th February 2020

1 INTRODUCTION

1.1 This report sets out the proposed Capital Strategy for the year 2020/21, including the Prudential indicators for capital finance for 2020/21.

1.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy and Investment Strategy before the start of each financial year.

1.3 The CIPFA "Prudential Code" 2017 edition, "Treasury Management Code of Practice" 2017 edition and MHCLG revised guidance 2018 have resulted in the creation of a new Capital Strategy which is required to be approved by the Council before the start of each financial year.

2 PURPOSE

2.1 The purpose of the Capital Strategy is to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

2.2 The purpose of investment management operations is to ensure that all investment decisions that are made primarily to generate a profit have a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.

2.3 The second main function of the Capital Strategy is to set the Prudential indicators for affordable, prudent and sustainable capital investment.

2.4 Appendix A sets out the Capital Strategy for 2020/21 to 2022/23 and fulfil key legislative requirements as follows:

Appendix A

- The **Capital Strategy** which sets out a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in accordance with CIPFA's Code of Practice on Treasury Management, the Prudential Code and HHCLG guidance on local government investments.

2.5 These policies and parameters provide an approved framework within which officers undertake the day-to-day capital, treasury and non-treasury investment activities.

3 SCOPE

3.1 This report covers the Council's Capital management activities as set out in paragraphs 2.1 to 2.2 above. A summary of Treasury Management and Commercial investments and the Council's borrowing requirements to fund the Capital strategy are set out. Prudential indicators are identified to set measures for affordability, prudent and sustainable. The funds invested consist of short-term cash available due to timing of income and expenditure, prudential borrowing and the Council's capital receipts.

3.2 The Council incurred prudential code borrowing in 2018/19 in the sum of £45.58m in relation to its capital expenditure. Further borrowing to support the financing of its approved capital programme in the year 2019/20 will also be required. It therefore commences the year 2020/21 in a position where its investment holdings continue to remain significant (although, less than in previous financial years) but it also carries some accumulating debt. There will be an inevitable requirement to incur some further borrowing to service capital expenditure in future years.

3.3 Careful observation of the "gross debt v capital financing requirement" indicator will need to be undertaken progressively throughout the financial year.

3.4 Where a material change occurs to the attached strategies during the year a revised strategy will be presented to full council before the change is implemented.

4 RECOMMENDATION

4.1 The Council is recommended to approve The Capital Strategy 2020/21 and Prudential Indicators at Appendix A.

P G TALYOR
PORTFOLIO HOLDER CORPORATE SERVICES

APPENDIX A

CAPITAL STRATEGY 2020/21

1 INTRODUCTION

1.1 This capital strategy is a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

2 CAPITAL EXPENDITURE AND FINANCING

2.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, as outlined in the following account policy for 2020/21:

> "Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably (subject to a deminimus capitalisation threshold of £20,000). Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred."

2.2 In 2020/21, the Council is planning capital expenditure of £55.4m as summarised below:

Table 1: Prudential Indicator: Estimate of Capital Expenditure in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/223 budget
General Fund services	48	50.6	55.4	50.6	15.6
TOTAL	48	50.6	55.4	50.6	15.6

2.3 The main General Fund capital projects in 2019/20 include investment property acquisitions at Frimley 4Business Park, Ashbourne House (Guilford) and Trafalgar House (Winchester). In addition, regeneration property purchases in Union Street (Aldershot) and the Old Police Station site (Farnborough Civic Quarter). In 2020/21 a further £15m of investment properties are due to be purchased alongside £17m of regeneration expenditure. The Council does not plan to incur expenditure of capital expenditure on Treasury Management investments in 2020/21.

2.4 **Governance**: Service managers bid annually in September to include projects in the Council's capital programme. Bids are collated by Finance who calculate the financing cost (which can be nil if the project is fully externally financed). Corporate Leadership Team (CLT) and Executive Leadership Team (ELT) appraises all bids based on a comparison of service priorities against financing costs. The final capital programme is then presented to Cabinet early February and to Full Council in late February each year. Variation to capital bids and new capital bids can be received during the year.

- For full details of the Council's capital programme, including the project appraisals undertaken, see: Appendix 4, FIN 2007 Revenue budget, Capital Programme and Council Tax

2.5 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
External sources	2.0	4.7	8.0	5.0	2.3
Own resources	0.4	0.2	1.0	0.5	0.1
Debt	45.6	45.7	46.4	45.1	13.2
TOTAL	**48.0**	**50.6**	**55.4**	**50.6**	**15.6**

2.6 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Own resources	0.3	1.4	2.2	3.4	4.4

- The Council's full minimum revenue provision statement is available here: Appendix C, FIN 2004 Annual Treasury Management Strategy and Non-Treasury Investment Strategy

2.7 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £44.3m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
General Fund services	58.3	106.5	154.0	199.2	211.1
MRP	-0.3	-1.4	-2.2	-3.4	-4.4
IFRIC 4 Lease Adjustment	2.8	2.5	2.3	2.1	1.7
TOTAL CFR	**60.8**	**107.6**	**154.1**	**197.9**	**208.4**

2.8 **Asset management:** To ensure that capital assets continue to be of long-term use, the Council is in the process of putting an asset management strategy in place.

2.9 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council is forecasting to receive the following capital receipts over the medium term.

Table 5: Capital receipts in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/223 budget
Asset sales	0	0.0	0.0	0.0	0.0
TOTAL	**0**	**0.0**	**0.0**	**0.0**	**0.0**

- The Council's Flexible Use of Capital Receipts Policy is available here: Appendix 5, FIN 2007 Revenue budget, Capital Programme and Council Tax

3 TREASURY MANAGEMENT

3.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.2 Due to decisions taken in the past, the Council currently has £90.0m borrowing at an average interest rate of 1.1% and £31.3million treasury investments at an average rate of 4.2%.

3.4 **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.9%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

3.5 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

Gross Debt and the Capital Financing Requirement in £ millions	**2018/19 actual**	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/223 budget**
Debt (incl. leases)	60.8	107.6	154.1	197.9	208.4
Capital Financing Requirement	154.1	197.9	208.4	217.8	224.3
Difference	93.3	90.3	54.3	19.9	15.9

3.6 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

3.7 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity, minimise credit risk and maintain Market in Financial Instrument Directive II (MiFID II) status. This benchmark is currently £94.7m and is forecast to rise to £186.7m over the next three years.

Table 7: Borrowing and Liability Benchmark in £ millions

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/223 budget**
Outstanding borrowing	60.8	107.6	154.1	197.9	208.4
Investment minimum	-10.0	-10.0	-10.0	-10.0	-10.0
Investments held that can be redeemed	-24.2	-22.9	-22.9	-22.9	-22.9
Liability benchmark	46.6	94.7	141.2	185.0	195.5

3.8 The table shows that the Council expects to remain borrowed above its liability benchmark. This is because a deliberate decision has been made to maintain investment fund balances and not deplete to cover potential borrow costs.

3.9 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and Operational Boundary for External Debt in £ millions

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit – total external debt	122.6	169.1	212.9	223.4
Operational boundary – total external debt	117.6	164.1	207.9	218.4

- Further details on borrowing are contained in the treasury management strategy – Appendix A FIN 2004 Annual Treasury Management Strategy and Non-Treasury Investment Strategy

3.10 **Treasury Management Investment Strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.11 The Council’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 9: Treasury Management Investments in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/223 budget
Near-term investments	2.3	1.0	1.0	1.0	1.0
Longer-term investments	21.9	21.9	21.9	21.9	21.9
TOTAL	**24.2**	**22.9**	**22.9**	**22.9**	**22.9**

- Further details on treasury investments are contained in the Treasury Management Strategy - Appendix A FN2004 Annual Treasury Management Strategy and Non-Treasury Investment Strategy

3.12 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Executive Head of Finance and staff, who must act in line with the treasury management strategy approved by Full Council. Year-end report and half-yearly reports on treasury management activity are presented to Licencing, Audit & General Purposes Committee (LA&GP) and Cabinet. The LA&GP Committee is responsible for scrutinising treasury management decisions.

4 NON-TREASURY INVESTMENTS FOR SERVICE PURPOSES

4.1 The Council makes investments to assist local public services, including making loans to local businesses to promote economic growth, the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even / generate a profit after all costs.

4.2 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Executive Head of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are contained in the investment strategy: Appendix B FIN 2004 Annual Treasury Management Strategy and Investment Strategy

5 COMMERCIAL ACTIVITIES

5.1 With central government financial support for local public services declining, the Council invests in commercial property purely or mainly for financial gain and lends to its subsidiary for the same reason. Total commercial investments for 2019/20 are forecast to be £110.8m, the portfolio providing a net return after all costs of 3.9%.

5.2 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include level of competition, barriers to entry/exit, and future market prospects

These risks are managed by:

- Assessment of the relevant market sector(s) including the level of competition, barriers to entry/exit, future market prospects
- Assessment of exposure to particular market segments to ensure adequate diversification
- Use of external advisors if considered appropriate by the Executive Head of Finance
- Full and comprehensive report on all new investments to Cabinet
- Continual monitoring of risk across the whole portfolio and specific assets

In order that commercial investments remain proportionate to the size of the Council, these are subject to an overall maximum investment limit of £150m and contingency plans are in place should expected yields not materialise.

5.3 **Governance:** Decisions on commercial investments are made by the Executive Head of Regeneration and Property in line with the criteria and limits approved by LA&GP Committee, Cabinet and Full Council in the investment strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on commercial investments and limits on their use are contained in of the investment strategy: Appendix B FIN 2004 Annual Treasury Management Strategy and Investment Strategy

6 LIABILITIES

6.1 In addition to debt of £154.1m detailed above, the Council is committed to making future payments to cover its pension fund deficit. It has also set aside funds to cover risks of Business Rate Appeals. The Council is also at risk of having to pay for Local Land Charges but has not put aside any money because the value of claim is unknown.

6.2 **Governance:** Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Executive Head of Finance. The risk of liabilities crystallising and requiring payment is monitored by Finance and reported quarterly to committee. New liabilities exceeding £2m are reported to full council for approval/notification as appropriate.

- Further details on liabilities and guarantees are on page 49 and 50 of the 2018/19 statement of accounts: https://www.rushmoor.gov.uk/statementofaccounts

7 REVENUE BUDGET IMPLICATIONS

7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general government grants.

Table 10: Prudential Indicator: Proportion of Financing Costs to Net Core Revenue Stream in £ million

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/223 budget
Financing Costs	0.5	2.3	3.5	5.3	6.7
Proportion of Net Core Revenue Stream	4.9%	22.0%	34.0%	56.3%	68.8%

- Further details on the revenue implications of capital expenditure are contained in the 2020/21 revenue budget: Appendix 2, FIN 2007 Revenue budget, Capital Programme and Council Tax

7.2 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Executive Head of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because the net budget demand on the Council and the risks within the programme have been reviewed and are within the Council's risk appetite and tolerances.

8 KNOWLEDGE AND SKILLS

8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Executive Head of Finance is a qualified accountant (Chartered Institute of Public Finance and Accountancy) with 20 years' experience of local government finance, the Executive Head of Regeneration and Property is a qualified surveyor (Royal Institute of Chartered Surveyors). The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury) and RICS.

8.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and Lambert Smith Hampton Investment Management Ltd (LSHIM) as commercial property consultants as required depending on the nature of the professional advice sought This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

ANNEX 3

COUNCIL MEETING – 20th FEBRUARY 2020

AGENDA ITEM NO. 5 (3)

ANNUAL TREASURY MANAGEMENT STRATEGY AND ANNUAL NON-TREASURY INVESTMENT STRATEGY 2020/21

A report from the meeting of Cabinet held on 4th February 2020

1 INTRODUCTION

1.1 This report sets out the proposed Treasury Management Strategy and Non-Treasury Investment Strategy for the year 2020/21, including the borrowing and investment strategies and treasury management indicators for capital finance for 2020/21 and the Minimum Revenue Provision Statement.

1.2 The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy and Non-Treasury Investment Strategy before the start of each financial year.

1.3 The CIPFA "Prudential Code" 2017 edition, "Treasury Management Code of Practice" 2017 edition and MHCLG revised guidance February 2018 focus on "non- treasury" investments. Resulting in a requirement for a separate Non-Treasury Investment Strategy (Appendix B) must be approved before April 2020.

2 PURPOSE

2.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

2.3 Accordingly, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: *"The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".*

2.4 The purpose of non-treasury investment management operations is to ensure that all investment decisions that are made primarily to generate a profit have a suitable level of security and liquidity. Ensuring risks and rewards are monitored regularly.

2.5 The second main function of investment management is to generate potential returns and monitor performance of returns on a regular basis.

2.6 The purpose of the Indicators is to set a framework for affordable, prudent and sustainable capital investment.

2.7 The appendices (A to C) set out the Treasury Management Strategy, Investment Strategy and Minimal Revenue Provision Statement for 2020/21 to 2023/24 and fulfil key legislative requirements as follows:

Appendix A

- The **Treasury Management Strategy** which sets out how the Council's treasury service will support capital decisions taken during the period, the day to day treasury management and the limitations on activity through treasury prudential indicators, in accordance with CIPFA's Code of Practice on Treasury Management and Prudential Code;
- The **Annual Borrowing Strategy** which sets out the Council's objectives for borrowing together with the approved sources of long and short-term borrowing and;
- **Annual Treasury Management Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss, in accordance with CIPFA's Code of Practice on Treasury Management.

Appendix B

- The new **Non-Treasury Investment Strategy** sets out the Council's investment decisions taken during the period and monitors performance and security, in accordance with MHCLG Investment Guidance.

Appendix C

- The Council's **Minimum Revenue Provision (MRP) Statement,** which sets out how the Council will pay for capital assets through revenue each year, as required by the Local Government Act 2003 (Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

2.8 These policies and parameters provide an approved framework within which officers undertake the day-to-day capital, treasury and non- treasury investment activities.

3 SCOPE

3.1 This report covers the Council's treasury management and investment activities as set out in paragraphs 2.1 to 2.5 above. The funds invested consist of short-term cash available due to timing of income and expenditure, prudential borrowing and the Council's capital receipts.

3.2 Arlingclose advice continues to indicate that the Council should diversify investment risk (spreading smaller amounts over an increasing number of counterparties) wherever possible.

3.3 The Council incurred prudential code borrowing in 2018/19 in the sum of £45.58m in relation to its capital expenditure. Further borrowing to support the financing of its approved capital programme in the year 2019/20 will also be required. The Council therefore commences the year 2020/21 in a position where its investment holdings continue to remain significant (although, less than in previous financial years) but also carries significant accumulating debt. There will be an inevitable requirement to incur some further borrowing to service capital expenditure in future years.

3.4 Careful observation of the "gross debt v capital financing requirement" indicator will need to be undertaken progressively throughout the financial year.

3.5 Where a material change to the attached strategies occurs during the year a revised strategy will be presented to Full Council before the change is implemented.

4 RECOMMENDATIONS

4.1 The Council is recommended to approve:

(i) The Treasury Management Strategy, Annual Borrowing Strategy and Annual Investment Strategy attached at Appendix A;

(ii) The Non-Treasury Strategy attached at Appendix B; and

(iii) The Minimal Revenue Provision (MRP) Statement set out in Appendix C.

P G TAYLOR
PORTFOLIO HOLDER CORPORATE SERVICES

APPENDIX A

TREASURY MANAGEMENT STRATEGY 2020/21

1 INTRODUCTION

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code. The Licensing, Audit and General Purposes Committee is the nominated Committee responsible for the effective scrutiny of the Treasury Management Strategy and policies.

1.3 Investments held for service purposes or for commercial profit are considered in a separate report, the Investment Strategy at Appendix B.

1.4 This strategy covers:

- External context
- Current borrowing and investment portfolio position
- Annual Borrowing Strategy
- Annual Investment Strategy
- Performance Indicators

2 EXTERNAL CONTEXT (commentary provided by Arlingclose)

2.1 **Economic background:** The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2020/21. The General Election has removed some uncertainty within the market, however following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

2.2 GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's

Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

2.3 The headline rate of UK Consumer Price Inflation remained the same in November 2019 at 1.5% year-on-year, the same as October 2019, however continuing to fall from highs of 2.1% in July and April 2019 as accommodation services and transport continued to contribute to a level of inflation below the BOE target of 2%. Labour market data continues to be positive. The ILO unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.9% in October 2019 and only likely to have a moderate impact on household spending.

2.4 Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the Bank of England target of 2%. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

2.5 The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).

2.6 The fallout from the US-China trade war continues which, risks contributing to a slowdown in global economic activity in 2019. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however, this can change quickly. Slow growth in Europe, combined with changes in leadership at the ECB and IMF has led to a change of stance in 2019. Quantitative easing has continued and been extended.

2.7 **Credit outlook**: The recent Bank of England stress tests assessed all seven UK banking groups. The tests scenarios include deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis. Major banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach; timeliness as the results are over 11 months of out date when they are published, being based on end-2018 balance sheets; ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups and; coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

2.8 The Bank of England will seek to address some of these issues in 2020, when Virgin Money/Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

2.9 Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

2.10 Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

2.11 **Interest rate forecast**: The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

2.12 Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

2.13 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 1.

2.14 For the purpose of setting the budget, it has been assumed that investments will be made at an average rate of 4.9%, and that new short-term loans will be borrowed at an average rate of 1.1%, being the current blended rate for short and long term-borrowing.

3 LOCAL CONTEXT

3.1 On 31 December 2019, the Council held £90.0m of borrowing, long-term liabilities of £2.5m and £31.3m of investments. This is set out in further detail below in table 3. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet (Capital Expenditure, Gross Debt and Capital Financing Requirement summary) in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Debt (incl. leases)	60.8	107.6	154.1	197.9	208.4
Capital Financing Requirement	154.1	197.9	208.4	217.8	224.3
Difference	93.3	90.3	54.3	19.9	15.9
Investments	24.2	22.9	22.9	22.9	22.9

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3 The Council has an increasing CFR due to the capital programme, stable level of investments and will therefore be required to borrow up to £116.7m over the forecast period.

3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2020/21.

3.5 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity, minimise credit risk and maintain Market in Financial Instrument Directive II (MiFID II) status.

Table 2: Liability benchmark

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Outstanding borrowing	60.8	107.6	154.1	197.9	208.4
Investment minimum	-10.0	-10.0	-10.0	-10.0	-10.0

Investments held that can be redeemed	-24.2	-22.9	-22.9	-22.9	-22.9
Liability benchmark	46.6	94.7	141.2	185.0	195.5

4 CURRENT BORROWING & INVESTMENT PORTFOLIO POSITION

4.1 The Guidance on Local Government Investments in England gives priority to security and liquidity, and the Council's aim has been to achieve a yield commensurate with these principles. The Council continues to follow Arlingclose advice in the knowledge that whilst long-term interest rate forecasts remain low it should generate enhanced returns with counterparties other than banks and to invest across a diverse investment portfolio.

4.2 During 2019/20 the Council has generated returns from existing long-term pooled fund investments together with diversification within the Council's investment portfolio. The Council held the following investments at 31st December 2019:

- £21.9m in pooled funds (providing a balance across a range of 6 different types of fund).
- Various temporary investments of minor amounts held in Money Market funds all for durations of 6 months or less

4.3 Local Authorities have adopted the new IFRS 9 accounting standard for the financial instruments including investments, borrowing, receivables and payables in 2019/20. A statutory override has been applied to the fair value movement on pooled investment fund. Any fair value movement can be reversed out from the General Fund to an unusable reserve called the Pooled Investment Fund Adjustment Account.

Table 3: Existing Investment & Debt Portfolio Position

	Actual Portfolio at 31/12/19 **£m**	**Average Rate** **%**
Total External Borrowing Borrowing from other Local Authorities	90	1.1
Total Gross External Debt	90	
Other long-term liabilities: Finance Leases	2.5	
Total other long-term liabilities	2.5	

Investments **Managed in-house:** Money Market Funds	9.39	0.69
Managed externally: **Pooled Funds:**		
CCLA LAMIT Property Fund	3.9	5.31
M&G Investments Strategic Corporate Bond Fund	4	3.8
UBS Multi Asset Fund	5	4.52
Kames	2	5.26
Columbia Threadneedle Investments	2	2.89
Schroder Income Maximiser Fund	5	10.63
Total Investments	31.29	4.22
Net Debt	61.21	

Table 3 Illustrates the Council's investment and debt portfolio position as at 31 December 2019.

5 ANNUAL BORROWING STRATEGY 2019/20

5.1 The Council currently holds £90.0m of loans, an increase of £29.2m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £46.8m in 2020/21.

5.2 The Council has made use of funds from the Enterprise M3 (LEP) by borrowing £3m in an earlier year to progress the Aldershot regeneration schemes. External contributions were scheduled to be received over a seven-year period to fully finance this amount. At the commencement of 2019/20 £1.7m of this borrowed amount remained outstanding. The Council has fully repaid the LEP outstanding balance as at December 2019.

5.3 Capital expenditure in 2019/20 financial year is programmed to be substantial, including a significant amount for investment property acquisitions. Capital expenditure in relation to the Farnborough International Loan has been completed within 2019/20. Prudential code borrowing will therefore be required in order to achieve overall financing. The Council will incur some further borrowing during 2020/21 in order assist in the financing of its capital programme.

5.4 **Objectives**: The Council's chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

5.5 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is more cost effective to borrow at short-term rates. The Council is balancing short-term refinancing risk by holding a mixed portfolio of short and long-term loans.

5.6 By adopting this approach the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years, however long-term borrowing rates are forecast to remain flat over the medium term. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis.

5.7 Alternatively, the Council may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

5.8 In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

5.9 **Sources of borrowing**: The approved sources of long-term and short-term borrowing are summarised below:

- Public Works Loan Board (PWLB) and any successor body
- Money market loans (long term & temporary)
- Any bank or building society authorised to operate in the UK
- UK Local Authorities
- UK public and private sector pension funds (except the Local Government Pension Scheme administered by Hampshire County Council)
- Capital market bond investors
- UK Municipal Bond Agency plc and other special purpose companies created to enable local authority bond issues.
- Lottery monies

5.10 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

5.11 The Council has previously raised the majority of its borrowing from Local Authorities, but it continues to investigate other sources of finance, that may be available at more favourable rates.

5.12 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

5.13 **Short-term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators in Section 7.

6 ANNUAL TREASURY MANAGEMENT INVESTMENT STRATEGY 2020/21

6.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. As at 31 December 2019 the Council's investment balance stood at £31.3m. The Council estimates that the level of investment held in Money Market Funds (MMFs) will reduce to £0m at the year end. In future years the Council estimates to hold on average £25m.

6.2 **Objectives**: Both the CIPFA Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.3 **Negative interest rates:** If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4 **Strategy**: The Council continues to maintain a diverse range of secure and/or higher yielding asset classes during 2020/21. All the Council's surplus cash remains invested in short-term unsecured bank deposits, and money market funds.

6.5 **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

6.6 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown. The schedule of approved counterparties is underpinned by a detailed list of named counterparties. This list is maintained within Financial Services for treasury management operational purposes.

Table 4: Approved Investment Counterparties

Counterparty		**Cash limit per counterparty**	**Investment Limit (per type of counterparty)**	**Time limit**
Banks Unsecured whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£2m	£20m in total	5 Years
	AA+	£2m		5 Years
	AA	£2m		4 years
	AA-	£2m		3 years
	A+	£2m		2 years
	A	£2m		13 months
	A-	£2m		6 months
	BBB+	£1m		100 days
Banks Secured whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	Unlimited	20 years
	AA+	£4m		10 years
	AA	£4m		5 years
	AA-	£4m		4 years
	A+	£4m		3 years
	A	£4m		2 years
	A-	£4m		13 months
	BBB+	£2m		6 months
	BBB or BBB-	£2m		100 days

Government whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	Unlimited	50 Years
	AA+	£4m		25 Years
	AA	£4m		15 Years
	AA-	£4m		10 Years
	A+	£2m		5 Years
	A	£2m		5 Years
	A-	£2m		5 Years
	BBB+	£1m		2 Years
	None	£4m		25 Years
Corporates whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£2m	£6m in total	20 Years
	AA+	£2m		10 Years
	AA	£2m		10 Years
	AA-	£2m		10 Years
	A+	£2m		5 Years
	A	£2m		2 Years
	A-	£1m		13 months
	BBB+	£1m		6 months
	none	£0.5m		5 Years
Counterparty		**Cash limit per counterparty**	**Investment Limit (per type of counterparty)**	**Time limit**
Registered Providers whose lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's is:	AAA	£4m	£10m in total	20 Years
	AA+	£4m		10 Years
	AA	£4m		10 Years
	AA-	£4m		10 Years
	A+	£4m		5 Years
	A	£4m		5 Years
	A-	£4m		5 Years
	BBB+	£4m		5 Years
	None	£4m		5 Years
The Council's current account bank if it fails to meet the above criteria		£3m	£3m	next day
UK Building Societies without credit rating		£1m	£4m	1 Year
Money market funds		£5m	£25m in total	n/a

Collective Investment Schemes (pooled funds)	£5m per fund	£25m in total	These funds do not have a defined maturity date

6.7 Investments may be made with banks or any public or private sector organisations that meet the above credit rating criteria. The Council may also invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Council's treasury management adviser.

6.8 **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

6.9 **Investment limits**: The Council's revenue reserves available to cover investment losses are forecast to be £2 million on 31 March 2020. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Detail of investment limits are given in table 4 above.

6.10 Further information as to why certain counterparties have been included in Table 4 is set out below:

- **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

- **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

- **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

  Investments in unrated small businesses may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Council's treasury management adviser.

- **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing and registered social landlords, formerly known as Housing Associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain a high likelihood of receiving government support if needed.

- **Money Market Funds**: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. The Council will continue to use funds that offer same-day liquidity as an alternative to instant access bank accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

- **Other Pooled Funds**: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

  Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the

Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

6.11 **Risk Assessment and Credit Ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made with that entity
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.12 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.13 **Liquidity management**: The Council reviews cash flow daily to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

6.14 **Other Information on the Security of Investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

6.15 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not reflected in general credit-ratings. In these circumstances, where the Council feels the whole market has been affected, it will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

7 TREASURY MANAGEMENT INDICATORS

7.1 The Treasury Management Code requires that local authorities set a number of indicators for treasury management performance, which have been set as below. A voluntary measure for credit risk as set out in paragraph 8.2

7.2 **Credit Risk (Credit Score Analysis)**: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

The advice from Arlingclose is to aim for an average A-, or higher, average credit rating, with an average score of 7 or lower. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

Credit Risk Indicator	**Target**
Portfolio average credit rating	A-
Portfolio average credit score	7.0

7.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount cash available within three months, including bank deposits, call accounts and money market funds.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£1m

7.4 **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£500,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£500,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

7.5 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Maturity Structure	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.6 **Principal Sums Invested for Periods Longer than a Year**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Principal Sums Invested	2020/21	2021/22	2022/23
Limit on principal invested beyond year end at any one time	£90m	£90m	£90m

8 OTHER ITEMS

8.1 The CIPFA Code requires the Council to include the following in its treasury management strategy.

8.2 **Policy on Use of Financial Derivatives**: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk, and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

8.3 **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Executive Head of Finance believes this to be the most appropriate status.

8.4 **Investment Training**: The investment training needs of the Council's treasury management staff are assessed on a continuous basis, discussed as part of the staff development reviews and reviewed as the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.5 **Investment Advisers:** The Council jointly tendered the treasury management service together with three other District Councils located within the Hampshire area, and appointed Arlingclose Limited for a further 3 years contract in April 2016. A contract extension was granted until April 2020. This contract enables the Council to receive specific advice on investment, debt and capital finance issues. The quality of this service will be reviewed on an ongoing basis as part of the process of monitoring the Council's investment portfolio.

8.6 **Financial Implications - Investments:** The budget for investment income in 2020/21 is £1.6 million (gross of borrowing interest), based on an average investment portfolio of £25 million at interest rates ranging from 0.35% liquid MMF and other short-term investments to 10.63% on the highest yielding long-term pooled investment fund. Performance of investments against budget will be reviewed on an ongoing basis and as part of our quarterly budget monitoring process.

8.7 **Financial Implications - Borrowing:** The budget for interest costs in relation to borrowing in 2020/21 is £1.37m (not including IFRIC 4 lease accounting interest). It is determined using the current average rate of interest on borrowing incurred for 2019/20. The Council's actual borrowing at the end of 2020/21 is estimated to be in the region of £154.1m

8.8 **Other Options Considered:** The CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Head of Finance continues to believe that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

APPENDIX 1

Arlingclose Economic & Interest Rate Forecast December 2019

Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.

- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.

- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitionary period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.

- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.

- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.

- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.

- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy.

- Arlingclose judges that the risks are weighted to the downside.

- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.

- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

APPENDIX B

ANNUAL NON-TREASURY INVESTEMENT STRATEGY 2020/21

1 INTRODUCTION

1.1 The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

2 SERVICE IMPROVEMNTS: LOANS

2.1 **Contribution:** The Council lends money to its subsidiaries, local businesses, and its employees to support local public services and stimulate local economic growth. The Council is a funding partner of Farnborough International Limited. The loans have enabled the development of the Farnborough International exhibition and conference centre. Expanding the exhibition and conferencing capabilities in Farnborough brings increased economic capacity to the Borough and is a reinvestment in local business. The Council is due to establish a Wholly Owned Company (WOC) subsidiary, called Rushmoor Homes (RH) in April 2020. The Council will lend to RH at a commercial rate to enable to procurement of property.

2.2 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	2018/19 Actual	19/20 Forecast	2020/21 Approved Limit
Local businesses	5.6	6.7	6.7
Subsidiaries and Partnerships	0	0	3.5
Employees	0.1	0.1	0.1
TOTAL	**5.7**	**6.8**	**10.3**

2.3 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

2.4 **Risk assessment:** The Council assesses the risk of loss before entering into lending agreements and whilst holding service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how these will evolve over-time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Executive Head of Finance. All loans will be subject to contract agreed by the Corporate Manager – Legal Services. All loans must be approved by full Council and will be monitored by the Executive Head of Finance.

3 SERVICE INVESTMENTS: SHARES

3.1 **Contribution:** The Council invests in the shares of its subsidiary and holds a financial share in a development partnership to support local public services and stimulate local economic growth.

3.2 The creation of a Wholly Owned Company (WOC) subsidiary, called Rushmoor Homes (RH) will assist to develop new homes to meet the Council's regeneration priorities and desire to improve the availability of quality housing within the Borough. It will enable the Council to hold existing properties, acquire and develop rented homes, responding to housing needs in the Borough and providing social and economic benefits. It is anticipated that approximately 57 houses and apartments will be constructed on up to 15 sites initially. Other foreseeable potential sites for development may be pursued once RH is operating. RH could create a number of jobs and training opportunities during the construction and operational phase, stimulating economic growth and regeneration. The income and capital growth generated can be reinvested in delivering Council services.

3.3 The purpose of Rushmoor Development Partnership (RDP) is to redevelop sites in Farnborough and Aldershot. In particular, it directly contributes to the delivery of the following Place Making strategic objective which underpins the Vision: “Great Places to Live – to make Aldershot and Farnborough town centres great places to live with a wide variety of quality new homes attractive to a diverse range of people”

3.4 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	19/20 Forecast	2020/21 Approved Limit
Subsidiaries and Partnerships	0.2	0.5
TOTAL	**0.2**	**0.5**

3.5 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares in line with paragraph 41 of *Capital Finance: Guidance on local government investment (third edition)*

3.6 The Council has excellent knowledge of the market planned for RH developments, as each of the initial 15 sites that may be developed by the RH are currently in the ownership of the Council. Given that RH aim is to provide private sector rental units the Council (as 100% shareholder of the RH) on sites of limited space and accessibility then the nature and level of competition is considered to be low. There is every expectation that the market demand for private rentals will continue to grow within the local economy, particularly as the possibility of home ownership for a significant element of the local population becomes less achievable as time progresses. The Council considers that exit from the RH (and market) is viable (if required) as RH investment is locked into quality housing stock, which has the potential for sale disposal as soon as it is developed.

3.7 The Council has good knowledge of the RDP intended developments. RDP is effectively a closed market and it will provide development in accordance with agreement between the Council and the developer. Competition has effectively been evaluated at the time of the creation of RDP. The Council considers that RDP (an LLP) is the most appropriate mechanism to achieve the developments required. Hence, the barriers to entry have been lifted (by creation of RDP) and barriers to exit are eliminated because RDP has a specific set of defined initiatives.

3.8 The Council has used three external advisors regarding the potential for creation and development of the WOC and development of the RDP. These three advisors are Freeths (legal and financial advice), Regenco (housing and economic advice) and Arlingclose (treasury management and financial advice).

3.9 The Council observes strict procedure regarding its procurement of external advisors. They are appointed utilising specific competitive tendering procedure processes, relevant to the category of advice and guidance that is sought. Maintenance of the quality of advice is reviewed within the relatively frequent tender engagement process.

3.10 The market for RH and RDP is localised to the Borough of Rushmoor only in the first instance but noting that it possible that RH may look for development potential outside of the local economy at some time in the future. The local market cannot be compared to any global information issued by credit agencies. Hence, no element of the risk assessment utilises credit ratings.

3.11 In the circumstances of RH and RDP no credit ratings have been used.

3.12 The relatively asset stability of RH assists to significantly lower the financial risk. A detailed financial model has been developed by Council staff to enable it to provide monthly budget/target achievement information. This model can be used to identify development risk, which (if it occurred) is limited mainly to asset creation achieved within RH budget plan. There is a perception that risk is greater during site development(s) as work in progress has lesser value when compared to a finished product article. RH development team will monitor developments to ensure minimisation of risk.

3.13 The RDP Investment team will monitor developments to ensure minimisation of risk. None of the site developments would proceed if there were considerations that no financial return would be achieved. The developer would not participate in any venture that did not deliver financial return. Both partners are insistent on the creation of specific and clearly defined development plans for all sites. Data and advice from the developer is paramount to assess and monitor risk for each development.

3.14 **Liquidity:** The creation of RH will commit funds initially a period of 26 years. There is potential to extend the commitment to 40 years. RDP funds will be committed for an estimated period of 10 years

3.15 **Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

4 COMERCIAL INVESTMENTS: PROPERTY

4.1 **Contribution:** The Council invests in local and regional commercial and residential property with the intention of making a profit that will be spent on local public services.

Table 3: Property held for investment purposes in £millions

Property by type	2018/19 Carry forward	2019/20 Transactions		2020/21 estimated transactions	
		Purchase cost	Estimated Value in accounts	Purchase cost	Estimated year end Value
Mixed use	4.54	0.00	4.54	5.0	9.5
Industrial units	24.14	0.00	24.14	5.0	29.1
Retail	30.68	0.02	30.70	0.0	30.7
Offices	15.58	35.82	51.40	5.0	56.4
TOTAL	74.93	35.84	**110.78**	**15.0**	**125.8**

4.2 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

4.3 *Where value in accounts is at or above purchase cost:* A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment.

4.4 Should the 2019/20 year-end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

4.5 *Where value in accounts is below purchase cost:* The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss, and the Council will therefore take mitigating actions to protect the capital invested. These actions include:

- Review of the portfolio during 2020/21 by external agency

- An assessment from the Executive Head of Regeneration and Property that the best course of action is to hold the assets as values will increase over the long term. Giving consideration to the soundness of the assets with strong covenants/dependable income streams.

4.6 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by:

- Assessment of the relevant market sector(s) including the level of competition, barriers to entry/exit, future market prospects
- Assessment of exposure to particular market segments to ensure adequate diversification
- Use of external advisors if considered appropriate by the Executive Head of Finance
- Full and comprehensive report on all new investments to Cabinet
- Continual monitoring of risk across the whole portfolio and specific assets

4.7 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert t into liquid asset at short notice and will be subject to market conditions in terms of timescales involved. However, to ensure that invested sums could be accessed when they are needed the portfolio will be regularly reviewed and prioritised to ensure that commercial property could be sold as a going concern within a period of six months.

4.8 To management Commercial Property effectively the Council's commercial property consultants (Lambert Smith Hampton Investment Management Ltd (LSHIM)) have constructed a strategy that is contained in a separate report being taken to Cabinet on 4th February.

5 LOAN COMMITMENTS AND FINANCIAL GUARANTEES

5.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

5.2 The Council has not contractually committed any loans for 2020/21.

6 PROPORTIONALITY

6.1 The Council plans to become increasingly dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Council has earmarked reserves available to cover any immediate shortfall in income. The Executive Head of Regeneration and Property would review the cause of any shortfall and identify any actions needed to ensure the income shortfall is mitigated or remidied.

Table 4: Proportionality of Investments in £ millions

	2018/19 Actual	**2019/20 Forecast**	**2020/21 Budget**
Gross service expenditure	75.9	58.8	61.5
Investment income	4.7	8.5	8.8
Proportion	6.2%	14.4%	14.3%

7 BORROWING IN ADVANCE OF NEED

7.1 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

7.2 The Council may, in supporting the delivery of the Council's Capital Programme, borrow in advance of need where it is expected to demonstrate the best longer-term value for money position. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated (ie: the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds.

7.3 The Council is aware that it will be exposed to the risk of loss of the borrowed sums, and potential interest rate changes. These risks will be managed as part of the Council's overall management of its treasury risks and will be reported through the standard reporting method.

8 CAPACITY, SKILLS AND CULTURE

8.1 **Elected members and statutory officers:** The Council recognises that those elected Members and statutory officers involved in the investment decision making process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- to assess individual assessments in the context of the strategic

objectives and risk profile of the Council; and

- to enable them to understand how new decisions have changed the overall risk exposure of the Council.

The Council will ensure that the relevant officers and the Members of Cabinet have appropriate skills, providing training and advisor support where there is a skills gap.

8.2 **Agents:** Lambert Smith Hampton Investment Management (LSHIM) have been appointed as the Council's external investment advisor during 2019/20. LHSIM manage property investment portfolios for institutions, local authorities and private family offices. The LSHIM investment team are all RICS qualified and have over 85 years of combined commercial experience. The assigned investment team can call on the wider expertise and resource of the parent company (Lambert Smith Hampton-LSH) that have offices throughout the UK

8.3 **Commercial deals:** The Council will ensure that the Cabinet, officers and agents negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

8.4 **Corporate governance:** Any investment decisions will be scrutinised by Executive Leadership Team, Property Investment Activity Group (PIAG) and Cabinet before final approval. The Overview and Scrutiny committee review all decisions made by the Cabinet. Although after the event the Committee can make any recommendations to the Council if it sees fit.

9 INVESTMENT INDICATORS

9.1 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

9.2 **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	**2018/19 Actual**	**2019/20 Forecast**	**2020/21 Forecast**
Treasury management investments	24.2	22.9	22.9
Service investments: Loans	5.7	6.8	10.3
Service investments: Shares	0	0.2	0.5
Commercial investments: Property	74.93	110.8	125.8
TOTAL INVESTMENTS	104.9	140.7	159.5
Commitments to lend	1.1	0	0
TOTAL EXPOSURE	106.0	140.7	159.5

9.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

	2018/19 Actual	**2019/20 Forecast**	**2020/21 Forecast**
Treasury management investments	0	0	0
Service investments: Loans	1.1	2.2	4.4
Service investments: Shares	0	0.2	0.5
Commercial investments: Property	36.3	72.2	87.2
TOTAL FUNDED BY BORROWING	37.4	74.6	92.1

9.4 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Treasury management investments	2.7%	4.2%	4.9%
Service investments: Loans	4.02%	3.98%	3.87%
Service investments: Shares	0%	0%	0%
Commercial investments: Property	4.6%	3.9%	2.3%
ALL INVESTMENTS	3.9%	4.0%	2.7%

9.5 The above table shows a forecast increase in return on treasury management investments. This is due to a restructure of the Council's pooled fund portfolio, which has increased diversification of fund holding and income yield. There is a reduction in commercial property investment return net of all finance costs in 2019/20 and 2020/21. This is due to the additional borrowing and MRP costs accrued when purchasing investment property with the aid of external loans.

9.6 The Council has considered the following additional indicators prudent to report given the investment activities.

Table 8: Other investment indicators

Indicator	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Debt to net service expenditure ratio	2.4	8.8	13.7
Commercial income to net service expenditure ratio	0.19	0.69	0.8

APPENDIX C

MINIMUM REVENUE PROVISION STATEMENT

1.1 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

1.2 The Local Government Act 2003 requires the Council to have regard to the Ministry for Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

1.3 The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.4 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. This statement only incorporates options recommended in the Guidance.

1.5 For any unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure for all other assets or on capital expenditure not related to fixed assets but which has been capitalised by regulation or direction (revenue expenditure financed by capital under statute), will be charged over the useful economic life (UEL) of the asset up to a maximum of 50 years. MRP will be applied in the year following expenditure was incurred.

1.6 For assets acquired by finance lease or private finance initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

1.7 Where loans are made to other bodies and designated as capital expenditure, no MRP will be charged. However, the capital receipts generated by the repayments on those loans will be set aside to repay debt instead.

1.8 At the commencement of 2019/20 the Council had, a Capital Financing Requirement (CFR) of £60.8m in relation to a specific elements of capital expenditure incurred in the previous financial year (2018/19). The Council has incurred further amounts of capital expenditure in 2019/20 and will need to engage in an element of Prudential Code borrowing in that financial year to achieve total financing of its capital programme. It is inevitable therefore that the borrowing that is required in 2019/20 will require MRP to be charged to the Council's General Fund Revenue Account in 2020/21 and future years.

1.9 The implementation of International Financial Reporting Standards (IFRS) has meant that the accounting treatment for assets used within major contracts may result in embedded finance leases appearing on the Balance Sheet, leading to a requirement for MRP. This is purely an accounting requirement and does not give rise to any requirement to borrow to fund these assets.

1.10 Capital expenditure incurred during 2020/21 will not be subject to MRP charge until 2021/22.

1.11 Based on the Council's latest estimate of its capital financing requirement (CFR) on 31st March 2020, the MRP budget for 2020/21 has been set at (£2.2m).

1.12 **Overpayments:** The Council is planning to make voluntary overpayments of MRP that are available to reduce the revenue charges in later years. It is planned to make a further £0.45m overpayment in 2020/21.

MRP Overpayments in £ millions

Actual balance 31.03.2019	0
Approved overpayment 2019/20	0.45
Expected balance 31.03.2020	0.45
Planned overpayment 2020/21	0.45
Forecast balance 31.03.2021	0.9

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COUNCIL MEETING – 20th FEBRUARY 2020

AGENDA ITEM NO. 5 (4)

ESTABLISHING A LOCAL HOUSING COMPANY:- THE HOUSING COMPANY BUSINESS PLAN

A report from the meeting of the Cabinet held on 4th February 2020

SUMMARY AND RECOMMENDATIONS:

This report presents the five-year Business Plan for the Council's Local Housing Company.

The Council is recommended to:

- Approve the draft five-year Business Plan in Appendix One to be submitted to the Chief Executive of the Council as shareholder representative in substantially the same form, once the company has been incorporated, when it will become the Approved Business Plan for the company.
- Agree the sale of 12 Arthur Street and 154 Ship Lane to the Housing Company at market value subject to the relevant valuation.
- Delegate authority to the Chief Executive as shareholder representative to approve any variations in the delivery programme contained in the Business Plan, provided these variations can deliver the outcomes of the Business Plan, and be achieved within the approved budget.
- Appoint Cllr Paul Taylor as the third member of the Shadow Board and to become a Council appointee to the Company Board of Directors on incorporation of the company.
- Agree the procedures set out in paragraph 4.17 of the report for the agreement of subsequent business plans or project business plans,
- Agree the arrangements for performance and governance reporting set out in para 4.18 of the report

1. INTRODUCTION

1.1 In April 2019 the Council approved the creation of a wholly owned company limited by shares, to deliver housing in the Borough. The approval authorised the Chief Executive, in conjunction with the statutory officers, to establish the company and complete the relevant paperwork as required.

1.2 Progress has been made in preparing

- A shareholder agreement
- A funding agreement
- Articles and Memorandum of Association, and
- The company Business Plan

1.3 A shadow board of directors has been formed and has been meeting regularly.

1.4 This report seeks approval of the company's draft five-year Business Plan (attached at Appendix One).

1.5 This is a key decision due to the level of investment required.

2. BACKGROUND

2.1 The decision to form a local housing company was taken to allow the Council to participate in the local housing market and to achieve financial sustainability. A business case, including a financial model, was approved by Council in April 2019.

2.2 Establishing the housing company is a key priority of the Council's Business Plan April 2019 - March 2022, under the theme "Place".

3. DETAILS OF THE PROPOSAL

General

3.1 Following, the Council's decision to establish a housing company, officers and the shadow board have been preparing the company's business plan and the documentation necessary to incorporate the company

Shadow Board of Directors

3.2 In April 2019 Council approved the appointment of a Shadow Board to comprise the Deputy Leader of the Council and two other members. Currently Cllr Ken Muschamp(Deputy Leader of the Council) and Cllr Keith Dibble (Leader of the Labour Group) are serving as Shadow Board members and until his recent resignation Cllr Woolley was the third Director.

3.3 Under previous approvals the Shadow Board members become the Council's appointments to the Board of Directors on incorporation of the Company. A third member will need to be appointed before incorporation.

3.4 The Board is advised by the Head of Economy, Planning and Strategic Housing, supported by other officers of the Council.

3.5 The Shadow Board has met four times to consider the company documentation, company policies and the draft five-year business plan.

Company documentation

3.6 The Council has engaged Freeths to act as the Council's legal advisers for setting up the housing company. They have prepared the documents required to incorporate the housing company.

The Articles of Association

3.7 This document is based on the Model Articles for Private Companies Limited by shares as set out in the Companies (Model Articles) Regulation 2008. It sets out the way in which the company is run, governed and owned, including the number and appointment of Directors, decision making by the Board of Directors, the responsibilities and powers of Directors, the conduct of meetings and the issue, consolidation and transfer of shares.

The Shareholder Agreement

3.8 This agreement covers the relationship between the company and its only shareholder; the Council. It lists operational matters where the company requires consent of the Council. It allows the company to act in accordance with the Business Plan but any significant departures from the Business Plan require Council consent.

Facility Agreement

3.9 The funding to be provided by the Council to the Housing Company will be in the form of loans covered by this facility agreement.

3.10 Drafts of these documents have been prepared and have been considered and approved by the Shadow Board at their meeting of 24 July 2019. They will be submitted to the Chief Executive as shareholder representative for approval under delegations granted by Council on 11 April 2019.

4. THE FIVE-YEAR BUSINESS PLAN

4.1 A five-year Business Plan has been prepared to cover Company activity for the first years of its operation. It includes a programme to create a property portfolio of 57 units, based on taking a transfer of Council owned properties or sites.

The Sites

4.2 The sites to be used to create the Company's property portfolio are listed in Table 1 below. This list is not fixed. As further work is done on site capacity and planning issues, sites may be removed and others may be added as opportunities arise.

4.3 To deliver its programme, the company will need to take ownership of Council owned properties and sites. This will take place in phases. The Council will be responsible for determining site capacity and will develop proposals to a point where planning permission can be applied for. An option appraisal will be completed for each site. Where the best option, against financial, social or environmental criteria, is for the Council to sell to the Company, the Council will enter into discussions with the Company to achieve a disposal at the appropriate open market value

4.4 A price will be agreed at which the land/property will be transferred. The Company will need to satisfy itself that the price agreed is no more than the appropriate open market value for its purpose; does not compromise the viability of its programme to deliver homes for private market rent; and allows it to meet its performance measures as set out in its business plan.

4.5 It is proposed that approval is sought to agree the transfer of 12 Arthur Street and 154 Ship Lane. It is proposed that Cabinet grants authority to sell at the open market value subject to the relevant valuation.

Table 1: The sites

Site	Potential no. units	Estimated completion
12 Arthur Street (A)	3	2020/21
Ship Lane Cemetery Lodge (F)	1	2020/21
Land adj. 3A Arthur Street (F)	4	2020/21
Land adj. 69 Victoria Road (F)	2	2020/21
Land at Churchill Crescent (F)	8	2021/22
237 High Street, (A)	6	2021/22
Redan Road Depot (A)	6	2021/22
Pool Road Depot (A)	6	2021/22
Manor Park Cottage New Build (A)	1	2022/23

Land adj Fleet Road Scout Hut (F)	6	2022/23
Union Street East Car park (F)	8	2022/23
11 Wellington Street (A)	2	2022/23
Land at Water Lane (F)	2	2023/24
Manor Park Cottage (A)	1	2023/24
Manor Park Lodge (A)	1	2023/24

Programme

4.6 The first eight sites in the programme are allocated for transfer/development between 2020/21 - 21/22. The eight sites are divided into four tranches of activity

<u>Tranche One</u>

- 12 Arthur Street, Aldershot – transfer of an existing property
- 154 Ship Lane, Farnborough – transfer of an existing property

<u>Tranche Two</u>

- Land adjacent 3a Arthur Street, Aldershot – development site
- Land adjacent 69 Victoria Road, Aldershot – development site

<u>Tranche Three</u>

- Land at Churchill Crescent – development site
- 237 High Street – development site

<u>Tranche Four</u> (Scheme development yet to start)

- Redan Rd
- Pool Rd

Financial modelling

4.7 Financial modelling for the development sites in the first three tranches has used cost and valuation figures derived from architects, valuers and from comparable sites. The remainder of the programme was modelled using generic assumptions. As the programme progresses more accurate costs will feed into the model.

4.8 The modelling produces financial information on company expenditure to create its portfolio of assets and the resulting requirement for funding from the Council.

4.9 Over the first five years of operation it is anticipated that the Company will need to borrow approximately £11,289,900. The current proposed profile of borrowing is set out below.

Table 2

	Q4 2019/20 £'000	2020/21 Yr 1 £'000	2021/22 Yr 2 £'000	2022/23 Yr 3 £'000	2023/24 Yr 4 £'000	2024/25 Yr 5 £'000
Finance required for period	0.	3,194.5	5,522.8	1768.6	703.7	100.3
Cumulative finance required	0	3,194.5	8,717.3	10,485.9	11,189.6	11,289.9

4.10 Income in the form of net rent from the properties created, will be used to repay loans from the Council. The model demonstrates that by year 15, debt will peak at £11,770,300 then start to decline as rental income will be sufficient to start paying down loans. By year 44, the loans will be discharged.

4.11 Further opportunities to grow the portfolio are not factored into the model, however, additional units could be added by acquisition of properties or sites from the market. This would increase the loan requirement but could generate additional income and further opportunity for capital growth.

4.12 The model currently shows a consistent rate of return to the Council (as 100% shareholder and lender) of 2.5%. This is achieved without factoring in any capital growth and assuming rent and cost inflation for the first three years are 1.3% and 2.2% respectively and 2.5% thereafter.

Funding

4.13 The Company is wholly reliant on the Council for funding. This will take the form of loans to buy property from the Council and to fund development costs. Current financial modelling based on 15 sites and 57 dwelling units indicates an eventual peak requirement of £11,770,300 on which the Council will charge an interest rate of 5.5%.

4.14 To finance these loans, the Council will borrow as part of its overall Treasury Management Strategy. The current financial model has been prepared on the basis that long-term funding can be obtained at 3.0%. The Council approved its annual Treasury Management Strategy & Annual Capital Strategy for 2019/20 on 21 February 2019 and the potential borrowing and capital expenditure requirements in relation to the Company were included within these strategies. Future financial years' compilation of both the annual Treasury Management & Annual Capital Strategies will include amounts to ensure the Council's capital expenditure and borrowing commitments to the Company.

4.15 The margin between the rates specified at 4.13 & 4.14 will provide the Council with an average net income of £283,000 each financial year (measured over the first 10-year operation of the company). This net income amount will be achieved once the Company has developed its initial target unit volume of 57 dwellings (currently planned to be achieved in the 4th year of Company operations).

4.16 The total returns to the Council are shown in Table 3, attached at Appendix Two.

Approval of the Business Plan

4.17 The Business Plan covers a rolling five-year period and will be updated annually or in circumstances where the Company wishes to pursue opportunities outside the parameters of the Approved Business Plan. Provided the overall funding requirement is not to be exceeded and the number of units to be produced is no lower than set out in the Approved Business Plan, the Company can amend the way the programme is to be delivered by seeking shareholder consent which will be referred to the Council's Cabinet.

Governance

4.17 Governance arrangements for the Company are set out in the Articles of Association, however, because it is a Company wholly owned by the Council, there are additional governance arrangements. These are set out in section 16 of the Business Plan and cover Company reporting to the Chief Executive as shareholder representative and reporting by the Shareholder representative to Council; Cabinet; Licencing, Audit and General Purposes Committee; Overview and Scrutiny Panel and Policy and Projects Advisory Board, as appropriate. A summary of these arrangements is set out in the diagram below.

Annual Cycle of Rushmoor Homes/Council Governance

Rushmoor Homes Limited
Prepare Business Plan and Budget

Chief Executive as Shareholder representative receives Annual Budget and Business Plan and presents to Cabinet and responds to Rushmoor Homes Limited (if necessary)

Cabinet approves any required land disposals and recommends the Annual Budget and Business Plan and Investment requirement to Council for approval

Council
Approves Annual Budget and Business Plan and Investment in the company

Chief Executive as Shareholder representative receives report on half year review against Business Plan from Rushmoor Homes Limited and reports it to LAGP (governance) Overview and Scrutiny (Performance) and responds to Rushmoor Homes Limited (if necessary)

Chief Executive as Shareholder representative receives report – Full year review against Business Plan from Rushmoor Homes Limited and consults with Overview and Scrutiny/LAGP

Operational Matters

4.19 The Company will use Rushmoor Borough Council staff to conduct its business, aided by specialist consultants where necessary. A set of policies to cover rents, rent arrears, lettings and repairs and maintenance have been considered by the Shadow Board. The Company will procure experienced managing agents to provide tenancy and property management services.

5. EXTERNAL SCRUTINY

5.1 The Council's Treasury Management consultants, Arlingclose, have had an opportunity to review the Business Plan. A summary of their comments and adjustments made to the financial model and Company Business Plan in response, is contained in Appendix Three. The changes are modest. As a consequence the company will need to borrow £85,800 less from the Council. This is of benefit to the Company but will marginally reduce the amount received by the Council in interest charges.

6. IMPLICATIONS

Risks

6.1 A risk register is attached at Appendix Four. The risks relate to reductions in income from the Company's portfolio and increases in its costs. These events could increase Company indebtedness such that it can no longer be considered a going concern. In these circumstances the Council would not receive repayment of its loans and interest. Once a portfolio has been created these risks can be mitigated by an exit strategy relying on disposal of units. This risk is higher in the first five years of trading and at times where the Company's asset base is below or close to its debt liabilities.

Legal Implications

6.2 The Company will be a separate but wholly owned legal entity. Legal advice has been sought on the appropriate structure and documentation required. Proper governance arrangements are proposed to manage performance and to provide scrutiny.

Financial and Resource Implications

6.3 The creation of the Company requires a significant investment on the part of the Council, however, it represents an opportunity to participate in the housing market and to make a return on the capital invested.

6.4 The table in Appendix Two shows the net yield to the Council in relation to interest income and costs on borrowing, and the net yield arising from use of Council staff and start up costs. Overall the table shows the Council will benefit from an annual income of £293k by year five of operation, based on the current portfolio of properties.

6.4 The current level of development activity proposed can be supported by existing Council staff with assistance from specialist consultants. Any greater volume of work or shorter timescales would require further resources.

Equalities Impact Implications

6.5 There are no equalities issues arising from this report.

Other

6.6 The Council will continue to meet the holding costs for properties in the list at paragraph 4.6 of this report until such time as the properties are transferred to the Housing Company.

7. CONCLUSIONS

7.1 A wholly owned Company will give the Council freedom to participate in the housing market, to meet housing needs and to achieve greater financial sustainability. Following a Council decision to set up a company, a five-year business plan has been prepared with the housing company shadow board for the Council's consideration. This represents an important stage in meeting one of the Council's key objectives and provides a firm basis from which to grow a housing business.

BACKGROUND DOCUMENTS:

Council report 11 April 2019 Proposal for the establishment of a Council owned Housing Company.

COUNCILLOR MARTIN TENNANT
MAJOR PROJECTS AND PROPERTY
PORTFOLIO HOLDER

INDEX OF APPENDICES:

Appendix 1: "Rushmoor Homes Ltd" Business Plan April 2020 to March 2025
Appendix 2: Table: Net income received by the Council
Appendix 3 Table of comments from Arlingclose review of Business Plan and responses and amendments to Business Plan
Appendix 3: Risk Register

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V17

Draft Local housing Company Business Plan

Executive Summary

This is the first business plan of the newly formed Rushmoor Homes Limited.

The company is a wholly owned company limited by shares. Rushmoor Borough Council is the sole shareholder and owns 100% of the company.

The company has been set up by Rushmoor Borough Council to meet a number of objectives. The principal aim is to increase housing supply by providing good quality private rented homes in the borough as well as operating in a commercial manner that will yield returns to the Council.

The company aims to achieve a portfolio of approximately 50 – 60 homes over the first five years of operation. It will use properties and sites that are currently in the ownership of Rushmoor Borough Council but will consider opportunities to acquire land or properties to expand its holdings.

The plan provides an indicative programme that shows a graduated start to its developing its portfolio: delivering four units in the first year and six units in the second year; gaining momentum by year three and four when 26 units and 18 are expected; followed by 1 unit in year five.

To deliver this programme the company will secure finance from the Council to fund development and operating costs. The debt incurred will accumulate to a total of £11,770,700 in year 15 after which it will decline and be paid off by year 44. The programme as currently modelled does not include planned sale of properties.

The company expects to achieve net rents of £560,000pa by year five. These will be used to cover operating costs, finance costs and tax.

The company is operating in an area of high housing demand. Local rentals have not significantly increased in recent months. Although past trends cannot predict future performance, they indicate strong growth has occurred over the long term. The recent RICS Residential Market Survey predicts rental growth of 2% over the next twelve months and increasing to 3% by the 5 Year time horizon. Employment levels remain strong so that housing demand can be translated into transactions. In this market the company aims to provide homes for working households with an income of between £30,000 and £60,000. The expected programme is comprised primarily of one and two bedroom homes.

This business plan provides detail on the first four properties/sites to be acquired/developed by the company. The property transfers and the funding that is required by Rushmoor Homes for its first year of trading is set out in the plan for approval by its Shareholder.

Rushmoor Homes Ltd is funded 100% by Rushmoor Borough Council. To determine the level of funding it requires and to continually monitor the viability of its business plan the company uses a financial model that was developed with the Council. This is used to evaluate individual development schemes as well as the complete programme.

In its first year the company will contract to use Council staff to carry out the day to day functions of the business, with consultants employed where additional expertise is needed. Monitoring of performance will be carried out by the Council, as shareholder, through governance procedures established by the Council.

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1.0 Introduction

This business plan sets out the aims of Rushmoor Homes Limited for the first five years of its operation. The plan takes account of the housing market context within which the company will work and the risks that may arise from operating in this environment. Rushmoor Borough Council, as the company's sole shareholder, has provided the company with a set of objectives and targets which will be monitored by the Council as shareholder and through agreed governance arrangements. A prospective development programme is set out based on a limited portfolio of properties and sites currently in the ownership of Rushmoor Borough Council, to be delivered through the company's proposed work plan.

Underpinning the company's activity is the ability to draw finance from the Council and the plan identifies the resources required to deliver the target number of new homes over a five year timescale.

2.0 Background

Rushmoor Homes Ltd was set up following a business case prepared by Rushmoor Borough Council for the establishment of a housing delivery vehicle to allow the Council to participate directly in the housing market. It is a wholly owned company limited by shares. The company is run by a Board of Directors appointed by its shareholder.

3.0 Company purpose

The purpose of the housing company, as defined by Rushmoor Borough Council, is to participate directly in the housing market by providing quality homes for rent. It will take a transfer of the Council's existing residential properties and create a residential private market rent property portfolio. It will seek to help the Council with its need for affordable and temporary accommodation provided this can be done without significantly compromising its financial viability and where a company is the best means of achieving the required outcomes;

As the sole shareholder, Rushmoor Borough Council has influence over outputs e.g. type of housing, rents, returns to the Council which it will exercise through the approval process for this Business Plan.

4.0 Company Values

The way in which the company operates is an important part of the business plan. The company strives to become the best landlord in the borough and seeks to become:

- A trusted partner of its shareholder: Rushmoor Borough Council

- A trusted private sector landlord providing quality homes and services
- A business that operates with integrity and treats tenants, contractors and partners with respect.
- A learning organisation that acknowledges and learns from mistakes, and recognises good work.

5.0 Company Objectives

Reflecting the purpose set by the Council, the Company's objectives are

- to take a transfer of existing residential properties owned and let by the Council;
- to develop/acquire property to assemble a residential property portfolio that may contain a range of tenures;
- provide quality homes for rent in the private rented market to meet housing need and create a revenue stream providing a return on investment to its Shareholder (the Council);
- to remain financially viable and commercially sustainable;
- to assist the Council in meeting requirements for affordable housing and temporary accommodation where a company is the best means of achieving the required outcomes;
- to provide an efficient landlord service including housing management and maintenance;
- to maintain its properties to a standard that meets tenants reasonable expectations; protects Shareholder reputation and shareholder investment in the company, and
- create saleable, realisable assets should the generation of capital receipts become a priority for its Shareholder.

Potential Customers

The company will focus on providing good quality, well maintained homes. It will initially offer homes to small, working households whose incomes will be broadly in the range of £30,000 -£60,000pa. The properties will be let on 6 month assured shorthold tenancies. These will continue as periodic tenancies provided tenants pay their rent and abide by other terms of their tenancy. The company will take a commercial approach to letting its homes, making sure tenants have the ability to pay their rent.

The company's aspiration is to be commercially successful so that in time, provided its financial viability is not significantly compromised, the company could consider introducing an element of affordable/discounted housing to meet the needs of those on lower incomes.

Modelling of scenarios with varying amounts and types of housing at a discounted rent (affordable) indicate that this is unlikely to be possible without some form of subsidy in the short/medium term. The Company will need to substantially out perform its business plan to build a surplus if it is to provide affordable housing without subsidy.

6.0 Targets

The company's targets are as follows:

- To deliver 57 homes for private market rent by 2023/24
- To put in place a pipeline of future properties to take forward a programme beyond 2023/24.
- To provide homes for rent where the asset value is greater than total scheme costs and shows a return on investment of 2% (excluding capital growth in portfolio assets).
- Repay initial loans by year 44
- Provide the Council with £283,000 net income on average over the first 10 years.

An internal rate of return that takes account of growth in property values has not been calculated because of the difficulty in predicting house prices over a 40 year period. However, for each project, monitoring will be carried out to determine when sale of a property could increase the overall rate of return.

7.0 Returns to Shareholder

As well as helping to meet housing need the company seeks to provide a commercial return to its shareholder. To achieve this and ensure sustainability the company will:

- Pay a margin on loans from RBC
- Use income to pay down debt within 44 years
- Monitor performance of assets to provide advice on whether disposals could be considered if cash is required by RBC
- Maximise income, and efficiency of property management services.
- Pay the Council commercial rates for Council staff working on company business.
- To discharge debt before paying dividends.

8.0 The Programme

In the first five years [Rushmoor Homes] will seek to create a property portfolio as shown in table 3. This is based on property currently in the ownership of the Council.

Table 3: Property Portfolio

	Q4 2019/20	Full Yr 2020/21	Full Yr 2021/22	Full Yr 2022/23	Full Yr 2023/24	Full Yr 2024/25
Number of Properties transferred	0	4	0	0	2	0
Number of Properties developed and completed	0	6	26	18	1	0

Number of properties acquired	TBC	TBC	TBC	TBC	TBC	TBC
Cumulative number of properties	0	10	36	54	57	57

This programme is based on taking a transfer of Council owned properties/sites. In a competitive market this will be the easiest way to generate units in the short term. Additional units could be added by acquisition of individual units from the market or by taking development opportunities if they arise. It is likely any such acquisitions will require purchase at discount to the market sale values

The programme will be financed by Rushmoor Borough Council in the form of loan notes charged at 5.5% pa.This is a commercial rate for lending to a newly formed wholly owned company.

A more detailed programme of work for the first five years of operation is set out in appendix 1. The business plan will be reviewed annually and will take account of any changes arising from sites falling out of the programme or new sites being added.

9.0 Company Financial Profile

The following tables set out the key income and expenditure for the company together with its requirement for capital. The costs included in the business plan are based on current estimated costs for the two existing properties being transferred and estimates for two initial development schemes which have been designed but are subject to planning permission. These properties are:

- 12 Arthur Street, Aldershot – transfer only
- Ship Lane Cemetery Lodge, Farnborough – transfer only
- Land adjacent 3a Arthur Street, Aldershot - development
- Land adjacent 69 Victoria Road, Aldershot – development

Further detail on these sites is contained in appendix two. As proposals for these four sites are developed, current appraisals will need to be revised to take account of more accurate information as it becomes available.

The second phase of the programme includes a site at Churchill Crescent which presents an opportunity to achieve approximately 8-12 units. Again current appraisals will need to be revised as the scheme is finalized.

Costs all other schemes in the programme use the assumptions developed for the financial model. As the initial schemes move through the development process costs will be tested and confirmed and future schemes will start to be developed in detail. Cost inflation is included in the model at 2.2% for the first three years of operation and 2.5% from year four.

The financial model will continue to be updated with this information to ensure that individual projects and the programme remain viable. This information will inform subsequent updates to the Business Plan.

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Table 4 : Company Assets and Expenditure on Assets

	Q4 2019	Full Yr 2020/21 Yr 1	Full Yr 2021/22 Yr 2	Full Yr 2022/23 Yr 3 £000	Full Yr 2023/24 Yr 4	Full Yr 2024/25 Yr 5	Full Yr 2034/35 Yr 15	Full Yr 2044/45 Yr 25	Full Yr 2063/64 Yr 44
Asset expenditure in period									
Land transferred from RBC for shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capitalised expenditure on assets	0.0	2,094.4	4,794.7	1,527.4	118.5	0.0	0.0	0.0	0.0
Land transferred from RBC for loan note	0.0	976.5	540.1	80.0	475.0	0.0	0.0	0.0	0.0
Total - Asset expenditure in period	**0.0**	**3,070.9**	**5,334.8**	**1,607.4**	**593.5**	**0.0**	**0.0**	**0.0**	**0.0**
Assets cumulative									
Land transferred from RBC for shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capitalised expenditure on assets	0.0	2,094.4	6,889.1	8,416.5	8,535.0	8,535.0	8,535.0	8,535.0	8,535.0
Land transferred from RBC for loan note	0.0	976.5	1,516.6	1,596.6	2,071.6	2,071.6	2,071.6	2,071.6	2,071.6
Total - Assets cumulative	**0.0**	**3,070.9**	**8,405.7**	**10,013.1**	**10,606.6**	**10,606.6**	**10,606.6**	**10,606.6**	**10,606.6**

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Table 5: Company Balance Sheet

	Q4 2019	Full Yr 2020/21 Yr 1	Full Yr 2021/22 Yr 2	Full Yr 2022/23 Yr 3 £000	Full Yr 2023/24 Yr 4	Full Yr 2024/25 Yr 5	Full Yr 2034/35 Yr 15	Full Yr 2044/45 Yr 25	Full Yr 2063/64 Yr 44
Assets									
Assets (Cumulative)	0.0	3,070.9	8,405.6	10,012.9	10,606.4	10,606.3	10,606.3	10,606.6	10,606.7
Assets cash (Cumulative)	-	-	-	-	-	-	-	-	565.0
Net all assets (Cumulative)	0.0	3,070.9	8,405.6	10,012.9	10,606.4	10,606.3	10,606.3	10,606.6	11,171.7
Financing									
Accumulated (Profit)/Loss	0.0	123.7	311.8	473.1	583.3	683.7	1,164.1	(46.9)	(11,171.6)
Financing - Loans	0.0	(3,194.5)	(8,717.3)	(10,485.9)	(11,189.6)	(11,289.9)	(11,770.3)	(10,559.6)	0.0
Financing - Equity	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Total finance	0.0	(3,070.9)	(8,405.6)	(10,012.9)	(10,606.4)	(10,606.3)	(10,606.3)	(10,606.6)	(11,171.7)

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Table 6 A Company Profit and Loss : Income

	Q4 2019	Full Yr 2020/21 Yr 1	Full Yr 2021/22 Yr 2	Full Yr 2022/23 Yr 3 £	Full Yr 2023/24 Yr 4	Full Yr 2024/25 Yr 5	Full Yr 2034/35 Yr 15	Full Yr 2044/45 Yr 25	Full Yr 2063/64 Yr 44
RENT INCOME (gross)	0	(44,400)	(197,500)	(528,800)	(666,800)	(705,700)	(903,400)	(1,156,400)	(1,848,700)
Voids and bad debts 4%	0	1,800	7,900	21,200	26,800	28,400	36,300	46,500	74,300
Management fee 10% gross rent (incl.marketing and letting)	0	4,400	19,800	53,100	67,000	70,900	90,700	116,100	185,700
Inventory costs	0	200	900	2,300	2,800	3,000	3,800	4,900	7,800
Insurance	0	600	2,600	6,900	8,500	9,000	11,500	14,700	23,600
Gas safety	0	200	1,000	2,700	3,400	3,600	4,600	5,900	9,400
Routine maintenance	0	1,500	6,900	18,300	22,800	24,000	30,700	39,300	62,900
Service charge	0	600	3,200	8,900	11,000	11,400	14,600	18,600	29,800
Major repair provision	0	0	0	0	0	0	12,000	15,400	24,600
Total deductions	0	**9,300**	**42,300**	**113,400**	**142,300**	**150,300**	**204,200**	**261,400**	**418,100**
NET RENT	0	**(35,100)**	**(155,200)**	**(415,400)**	**(524,500)**	**(555,400)**	**(699,200)**	**(895,000)**	**(1,430,600)**

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Table 6B Company Profit and Loss: Operating Costs

		Yr 1	Yr2	Yr 3	Yr 4	Yr 5	Yr 15	Yr 25	Yr 44
OPERATING COSTS									
Contract payments to RBC (*) for:	0	95,000	35,900	36,800	37,700	38,600	49,500	63,400	101,300
Property management									
Acquisition and Development	If necessary external company/consultant costs may need to be added here								
Financial advice									
Accountancy									
Legal									
Office accommodation									
Telephony and IT									
Banking costs									
Printing and Stationery									
Travelling and Entertainment									
Training									
Consultants fees									
TOTAL OPERATING COSTS	0	95,000	35,900	36,800	37,700	38,600	49,500	63,400	101,300

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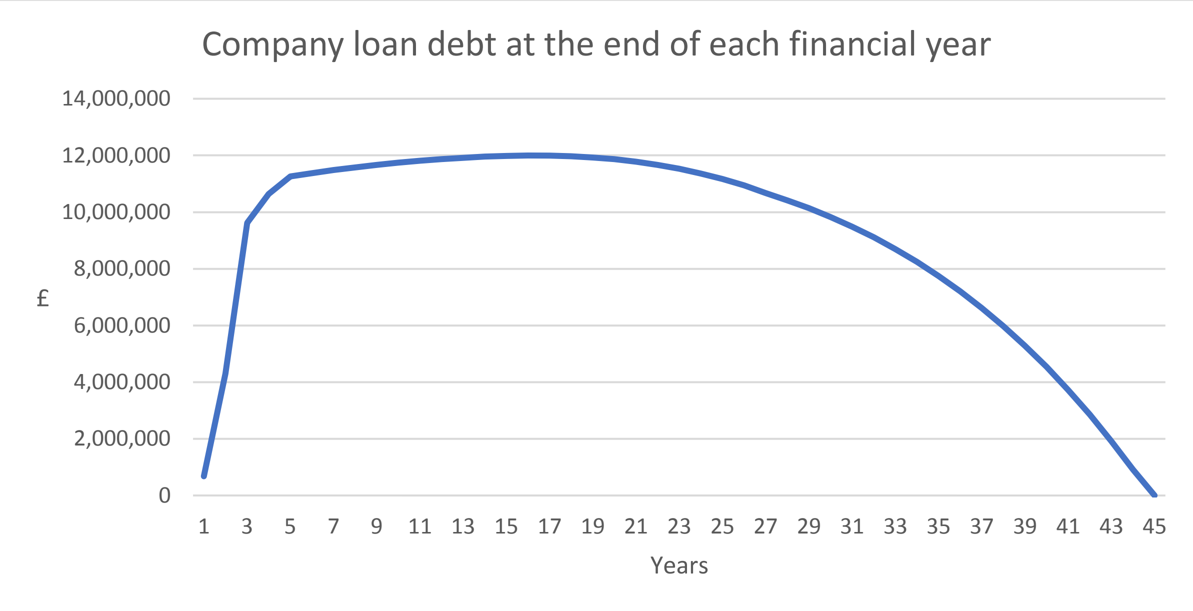
Table 6C Company Profit and Loss: Finance, Taxation and Net Profit and Loss

FINANCING AND TAXATION									
Interest payments	0	63,800	307,400	539,900	597,000	617,200	646,500	586,800	7,400
Corporation Tax	0	0	0	0	0	0	0	4,700	250,100
TOTAL FINANCE & TAX COSTS	0	63,800	307,400	539,900	597,000	617,200	646,500	591,500	257,500
*** Includes £60,000 set up costs in first full year**									
NET PROFIT(-)/LOSS	0	123,700	188,100	161,300	110,200	100,400	(3,200)	(240,100)	(1,071,800)

10.0 Loan Debt

To bring forward the programme as set out in section 8.0 the total loan debt incurred over the first five years of operation is £11,375,600. This will increase to a peak of £11,996,700 by year 15 before beginning, gradually to decline.



11.0 Development Programme Tasks

For the existing properties that are to transfer to the Housing Company the following tasks need to be completed

- Transfer of site / property with associated valuation and legal work
- Taking properties into management

For each of the development sites listed the following tasks need to be completed

- Transfer of site / property with associated valuation and legal work
- Novation of any contracts currently in place with the Council
- Planning application to be handled by consultant architects
- Planning consent achieved
- Building regulations consent
- Preparation or employers requirements
- Tender
- Tender evaluation
- Pre contract work
- Contracts signed
- Contract lead in
- Start on site
- Project monitoring
- Completion
- Handover
- Letting

In addition the company will need at the appropriate times to:

- Explore options for acquiring properties on the open market, offering a solution to empty property owners and acquiring development opportunities
- Explore options for providing housing at a discounted rent and the opportunities to obtain subsidy to enable this to occur
- The level of activity shown above can be delivered using existing RBC staff contracted to the company with support from consultants. A more aspirational level of activity would need additional staff resources.

In the period following set up the company will need to establish its policies on issues such as rents, tenancies and repairs and maintenance, along with its brief for developments.

Once into its third year of operation it will be in a position to investigate and take up additional development opportunities and to consider whether it can provide a limited number of affordable homes in future years.

12.0 Operational Management

Rushmoor Homes has contracts with Rushmoor Borough Council for staff that are carrying out the following functions

- Administration and support of the Company and its Board
- Purchase of sites and properties
- Coordinating planning applications
- Commissioning architects
- Commissioning and overseeing managing agents
- Assessing Company funding requirements
- Entering into Loan documents
- Administering invoicing and payments
- Preparing Annual accounts
- Preparing VAT
- Tax accounting

These staff are charged to Rushmoor Homes on a cost recovery basis.

To assist with the management of the tendering and construction phase of the development programme it is possible that the company will procure development management services from another Council owned housing company, registered provider or other commercial partner.

Property management

In order to provide good quality property management the Company will procure experienced managing agents using a specification that reflects the property management policies of the company.

In time and when there is sufficient scale the company will give consideration to whether these services or elements of these services can be taken in house.

13.0 Operating Context and the Housing Market

Initially the company's activity will be focused in the borough of Rushmoor. In time its property portfolio may expand into the local housing market area and beyond.

Based on market information set out in this section the company will be operating in a market where there is continuing demand for privately rented homes. There may be competition at the top end of the market with the new homes being marketed by Grainger plc, however, if the company pitches its target tenants correctly and provides a professional landlord service it is likely to secure tenants and minimise voids.

Growth in capital values has slowed recently but over the long term (based on past trends) the company can expect to see gains in the capital value of its portfolio.

Performance of the local housing market

Rushmoor is an area experiencing high housing demand which is not met in full by housing supply. As a consequence prices have risen substantially. For the principal post code areas in the borough, Zoopla (May 2019) reports a 20% increase in prices over the last five years. The last 12 months, however, have shown an increase in prices of under 1%. The growth in prices for flats has been lower than for "all property types". There is a continuing issue with affordability and access to home ownership with a median house price to median income ratio of 9.16[1]. The general trend indicates a level of house price growth that has the potential to capital returns on investment above those represented by rental return only.

Following the national trend, the number of households in privately rented accommodation has increased significantly[2]. Census data on tenure by local authority area showed an increase in households renting from private sector landlords from 6.6% in 2001 to 17.6% in 2011. It is expected that difficulties in saving for a deposit, which remains a particular challenge in the South East, strict mortgage lending criteria and high prices means many households will have to rent privately to meet their housing needs.

As well as those who use the private rented sector because of difficulties in accessing home ownership there are others who choose this tenure for its flexibility and others who are supported in the sector through the welfare system.

In general terms private renters tend to be younger (56% under 44). Single person households and couples with no dependent children account for 48% of households in this sector and 63% of households are in full time employment.[3]

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[1] (Source: Office for National Statistics, house price to residence based earnings ratio April 2019)

[2] The English Housing Survey: Private Rented Sector, 2016-17 reported that the proportion of private rented sector households has doubled since 1996-97 and the overall size of the private rented sector has increased over this time from 2.1 million households in 1996-97 to 4.7 million households in 2016-17. Growth was particularly strong after 2006-07 but appears to have slowed in more recent years.

[3] (Source: Ministry of Housing Communities and Local Government Statistical data sets Table F3101)

Table 1: Rents (£) per calendar month

Rushmoor	Room	1 bed	2 bed	3 bed	4 bed+
Median private rent	461	744	941	1,162	1,498

Source: Private Rental Market Statistics, Valuation Office Agency April 2018 – March 2019

Table 2: Current Asking Rents Zoopla Sept 2019

Post code	Property Type	
	1 bed flat	**2 bed flat**
GU11	£733 pcm (11)[4]	£959 pcm (17)
GU12	£696 pcm (8)	£870 pcm (13)
GU14	£807 pcm (39)	£1,123 pcm (21)

Employment and Incomes

In March 2019 1.2% of Rushmoor's working age population (16 -64) were claiming out-of-work benefits principally, for the reason of being unemployed. This indicates high levels of employment in the borough

Median annual incomes are £32,209 (£2,684 pcm)and lower quartile incomes £23,383 (£1,948 pcm). At this level of income a number of rents in table 2 would represent more than 30% of gross income for a single earner household, therefore, the company's rental offer will need to be targeted at those earning above median incomes or households with two incomes.

Annual income growth in the UK as at March 2019 was 3.2% (year on year 3 months average)

Buy to let

The private rented sector in Rushmoor is dominated by landlords owning a small number of properties. Many of these landlords will have acquired their properties under buy to let mortgages.

Tax changes which increased stamp duty on buy to lets; the phasing out of higher rate tax relief and strict mortgage lending criteria may have the effect of reducing the number of Buy to Let landlords.

Private sector investment in private rent

This sector is relatively new to Rushmoor. As part of the Wellesley development a number of private rent units are being developed. The first of these are currently being let. Developed by Grainger plc, they are flats aimed at professional people. Asking rents are over £900 per month. Build to rent is helpful on larger development sites generating income without competing with sales, therefore, Grainger may continue to include this form of tenure in the private sector element of the 4850 new homes to be delivered at Wellesley.

[4] Brackets indicate sample size

The future

Past trends would indicate good levels of rental and house price growth. In the short term this may be compromised by the effects of Brexit, particularly a no deal Brexit. However, the need for housing persists, whether this translates into housing demand will be determined by whether income are sufficient to meet deposit requirements and borrowing costs, particularly if mortgage interest rates rise.

The Nationwide House Price Index July 2019 showed annual house price growth remained below 1% with a modest month on month rise in house prices of 0.3% after seasonal adjustments. Their survey data suggests consumer confidence remains subdued. Price growth and market transactions are likely to remain at current levels supported by rising employment, earnings growth and low borrowing costs.

Saville's UK Housing Market Update September 2019 reported that house prices remained flat with annual growth a 6%. Transaction levels have reduced and are unlikely to change due to the current economic and political uncertainty.

Local asking rents collected from Rightmove also show limited growth over the 9 months from February 2019 to November 2019. For this reason modelling has used rental inflation rates of 1.3% for the first three years of the programme, rising to 2.5% in year four.

Mortgage rates are rising and further rises will limit the capacity for further house price growth.

These measures of the housing market will continue to be monitored regularly.

14.0 Risk and Exit Strategy

Funding costs – in its early life the company will be dependent on Rushmoor Borough Council finance. The terms on which this is available may change depending upon circumstances prevailing at the time.

Funding availability – Changes in national or local priorities and policies may restrict RBC's ability to provide funding.

Rental income – the Company relies on rental income to fund its operations and to make a return. Rental income could be at risk if there is a downturn in demand fuelled by decreasing incomes or rental inflation falls below cost inflation. Rents could be affected by national policy changes, for example rent controls.

Capital growth – while house price inflation has not been factored into the financial model, the Company could sell its assets (with the approval of RBC) at which point any capital growth will be realisable. Because of the cyclical nature of the housing market there will be times when house price inflation slows, if this occurs it could affect the return that is achievable.

Increased Costs – the company is at risk of rising costs across a range of its functions including repairs costs, construction cost, poor project management

Expansion – although an indicative initial portfolio of properties has been identified opportunities to expand may be limited in a highly competitive housing and land market. In addition as more detailed site investigation and appraisals are carried out some sites in the indicative programme may not proceed. In the event that expansion is possible the company will need to monitor the effect that its activities are having on the local market.

Capacity – In order to build out the programme more quickly than currently scheduled or to increase the programme, the number of staff, their skills and expertise, would need to be increased.

Operational risks – these centre around tenancy management and the risk of bad debts, damage to property and voids all of which can affect net rental income. For this reason ensuring the quality of managing agent and careful selection and support for tenants is important.

National policy – There is some uncertainty about the role of local authority controlled companies with little clarity on policy from government. There is a risk that government may not sanction continued use of companies to provide housing although there has not been any further guidance following the Social Housing Green Paper "published in August 2018.

A risk register is attached at appendix three.

Exit Strategy

The company will monitor quarterly risks against a number of thresholds and in particular will check the following risk indicators

- Demand for rental units
- Rental values and rental inflation over time
- Sale values
- Cost inflation over time
- Regulatory changes affecting the operation of the rental market

If these are exceeded the company will consider implementing a exit strategy as outlined below :

The company will procure asset valuations as required.

If there are changes in the risk indicators that will have a negative effect on the business plan the company's financial model will be re run to quantify the effect.

If the effect is that the company's ability to generate a profit or repay its debt is impaired compared with the baseline model, the following will be considered

- The possibility of refinancing to reduce interest costs
- A review of operating costs to see if savings can be made
- A review of assets to determine if a sale of a property(ies) will improve performance
- A review of performance of development, management and contractors' performance.
- A review of isage of assets to determine if better value from alternative letting strategies can be achieved

This quarterly review of risks, any modelling and consequential review of costs and performance will be reported to the Housing Companies Board and if in the view of the Board appropriate the Council as shareholder.

If appropriate the Council will be asked to approve actions proposed by the company to mitigate the negative effects of movements in the risk indicators

If in the view of the Council as shareholder, there is little prospect of the company mitigating the risks so that it returns to operating within reasonable tolerances of the original baseline model and business plan, the Council may consider options to mitigate its risk and ensure it recovers the maximum value to repay its own borrowing. Options that may be considered are:

- Winding up of the company and disposal of property – This option is highly dependent on the capital values of the property in comparison to debt. Over time it is likely that capital values will grow. However in early stages there is a risk that values may not cover the Council's debt particularly if there is a significant market down turn
- Winding up of the company and retention of the property by the Council as temporary accommodation – The Council is not able to hold rental property in general but can do so for the purposes of providing temporary accommodation. This depends on the need of the Council for such accommodation and the potential income/cost for this accommodation
- Sale of the company either in whole or to create a joint venture – The value of the company to an existing company in the rental market may represent a better value option particularly in the early stages. The ability of a company already operating in the rental market to share or absorb the overhead costs of management and maintenance may result in a better value proposition. Entering into a joint venture may enable the Council to maximise value over the longer term
- Alternative management options – The Council could explore whether alternative approaches to managing the company in a more arms length arrangement particularly if alternative markets are being considered could deliver better value

In deciding on what actions to take, the company will need to be fully aware of the value of its assets. There is a risk that the value of schemes in development may not allow full recovery of money spent, therefore, the company is at greatest risk of not being able to raise sufficient funds to pay off its borrowings in the development phase of the programme. In order to secure its position the Council will need to ensure that appropriate collateral warranties are in place to secure its interests where it may wish to exit or in the event of insolvency.

15.0 Development and Approval of the Business Plan

Rushmoor Borough Council, as sole Shareholder, exercises its influence and control through the Shareholder agreement which requires Council consent to a range of company actions; and through its annual consideration and approval of the company's business plan. A limited number of actions are permissible without recourse to the Council to allow ease of operation. The company can enter into property transactions and into contracts as set out in the Approved Business Plan.

The Business plan approval process will require its preparation and approval by the Board of

Directors and presentation to the Council as shareholder, with consideration by the Council's Cabinet and Full Council as necessary.

The Plan will cover a rolling five year period and will be updated annually or if the company wishes to pursue opportunities outside of the parameters of the business plan.

Rushmoor Homes Ltd will develop its programme as set out in the approved business plan and develop for each project a business case and project plan which will be prepared and approved by the Board of Directors and the Council as Shareholder.

16.0 Governance

Governance of the company is detailed in the Articles of Association, however, as a company wholly owned by Rushmoor Borough Council there are particular governance arrangements in place.

- Annually the Board prepares its Business Plan and its budget for the Chief Executive of Rushmoor Borough Council, as shareholder, to present to RBC's Cabinet.
- RBC's Cabinet agrees any land disposals required by the Business Plan and recommends the Business Plan, the annual budget and investment required to the Council
- The Council approves the annual budget Business Plan and investment in the company.
- The Board prepares a half year report to the Chief Executive, as Shareholder, reviewing progress against the Business Plan. The Shareholder presents these reports to RBC's Licensing, Audit and General Purposes Committee (governance) and its Overview and Scrutiny Panel (performance)
- The Board prepares a full year report on progress against the Business Plan and company governance for the Chief Executive of RBC, as Shareholder, and the Chief Executive will present this report and consult with Policy and Projects Advisory Board, Licensing Audit and General Purposes Committee and Overview and Scrutiny Panel.
- The Shareholder will feedback comments from Cabinet, Council, PPAB, O&S LA&GP to Rushmoor Homes Ltd as necessary.

17.0 Conclusions

This business plan outlines proposals for the first years of Rushmoor Homes' operation. It shows a programme for delivering 55 homes for private market rent that will contribute to providing good quality homes in this tenure and provide a return to the company's shareholder; Rushmoor Borough Council.

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Appendix One

Indicative Programme

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Financial year		19/20			20/21												21/22												22/23												23/24											
Calendar Month		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
Year		1												2												3												4														
Month		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51
Scheme																																																				
12 Arthur Street	3	T	L																																																	
Ship Lane Lodge	1	T	L																																																	
LA 3A Arthur Street	4					S								C	L																																					
LA 69 Victoria Road	2					S								C	L																																					
Land at Churchill Crescent	8									S								C	L																																	
237 High Street Aldershot	6									S								C	L																																	
Manor Park Cottage NB	1																			S								C	L																							
Fleet Road Scout Hut	6																			S								C	L																							
Redan Road	6																S								C	L																										
Pool Road Depot	6																S								C	L																										
Union Street East	8																					S								C	L																				
11 Wellington Street	2																													S					C	L														
Water Lane	2																																S						C	L										
Manor Park Cottage	1																																									T	L								
Manor Park Lodge	1																																									T	L								
Year totals				4												6												26												18												3
Programme totals	57																																																			

T=transfer, L=letting, S=start on site, C=completion

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Appendix Two

1. 12, Arthur Street.

Site details	
Address	12 Arthur Street Aldershot GU11 1HL
Description	3 Flats in converted Victorian house Flat 1 - 581sqft/ 53.94sqm Flat 2 – 594sqft/ 55.17sqm Flat 3 – 700sqft/ 65.08sqm
Site Area	133sqm
Title	Registered HP733478
Access to Highway	Confirmed against Planning Map
Planning	Planning permission granted 29 03 2017 for change of use from B3 to C3 use.
Utilities	Checked 2016 - new requests required
Valuation	Carter Jonas April 2019 £540,000 residential use with vacant possession £486,000 residential use, flats let on assured shorthold tenancies
Option appraisal	To be completed
Financial appraisal	IRR over 50 years 4.7%. NPV at 5% shows payback by year 55
Return on costs	7%
Cost to value	68%

Indicative Programme

		2019/20							2020/21	
Calendar Month 2019/2020		**O**	**N**	**D**	**J**	**F**	**M**	**A**	**M**	**J**
Project Month		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
12 Arthur Street										
Valuation	✓									
Option Appraisal										
Cabinet Report to transfer site to Housing Co.										
Transfer										
In management										

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12 Arthur Street

2. Ship Lane Cemetery Lodge, 154 Ship Lane, Farnborough

Site details	
Address	Ship Lane Farnborough
Description	3 bedroom house let on assured shorthold tenancy
Site Area	133sqm
Title	Registered HP812119
Access to Highway	See attached GIS plan
Planning	Established residential use
Utilities	Checked 2016 new requests required
Valuation	Estimated £500,000 to be confirmed
Option appraisal	To be confirmed
Financial appraisal	IRR over 50 years 8.227% NPV @5% shows payback at year 31
Return on costs	1.2% (net rent/purchase price)
Cost to value	80 - 90%

Indicative Programme

		2019/20							2020/21	
Calendar Month 2019/2020		**O**	**N**	**D**	**J**	**F**	**M**	**A**	**M**	**J**
Project Month		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
Ship Lane Cemetery Lodge										
Valuation	✓									
Option Appraisal										
Cabinet Report to transfer site to Housing Co.										
Transfer										
In management										

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154 Ship Lane

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3. Land adjacent 3a Arthur Street, Aldershot

Site details	
Address	Arthur Street Aldershot GU11 1HJ
Description	Vacant site last used for parking – 5 - spaces
Site Area	150sqm
Title	Registered HP781025
Access to Highway	GIS plan attached
Planning	Term contract parking 89/00035/RBC
Utilities	Checked 2016. New requests needed
Valuation	Market value for residential with planning permission £55,000 (excluding S106 contributions) Market value without planning permission £122,000
Option appraisal	TBC
Financial appraisal	IRR over 50 years 4.8% NPV@5% payback by year 53
Return on costs	3.6% (Net rent £30,590/ costs £864,360)
Cost to value	111% costs £864,360/GDV £775,000

Indicative Programme

		2019/20							2020/21	
Calendar Month 2019/2020		**O**	**N**	**D**	**J**	**F**	**M**	**A**	**M**	**J**
Project Month		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
Land adjacent 3a Arthur Street										
Valuation	✓									
Option Appraisal										
Cabinet Report to transfer site to Housing Co.										
Transfer								★		
Pre application discussions										
Apply for Planning Permission										
Planning consent								★		
Develop Specification										

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Land adjacent 3a Arthur Street

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4. Land adjacent to 69 Victoria Road

Site details :	
Address	Car Park adj 69 Victoria Road Aldershot GU11 1SJ
Description	A vacant car park at the junction of Arthur Street and Victoria Road. Used informally as car parking
Site Area	172sqm
Title	HP809050 attached
Access to Highway	GIS plan attached
Planning	Checked 2019 - no record of planning permission
Utilities	Checked 2016 new request needed
Valuation	£0 market value with residential planning permission £60,000 market value without planning permission
Option appraisal	TBC
Financial appraisal	IRR 4.5% over 50 years NPV @ 5% shows payback at year 56
Return on costs	3.8% Net rent £16,456/Costs £430,156
Cost to value	97% Costs £430,156/GDV £440,000

Indicative Programme

		2019/20							2020/21	
Calendar Month 2019/2020		**O**	**N**	**D**	**J**	**F**	**M**	**A**	**M**	**J**
Project Month		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
Land adjacent 69 Victoria Road										
Valuation	✓									
Option Appraisal										
Cabinet Report to transfer site to Housing Co.										
Transfer								★		
Pre application discussions										
Apply for Planning Permission										
Planning consent								★		
Develop Specification										

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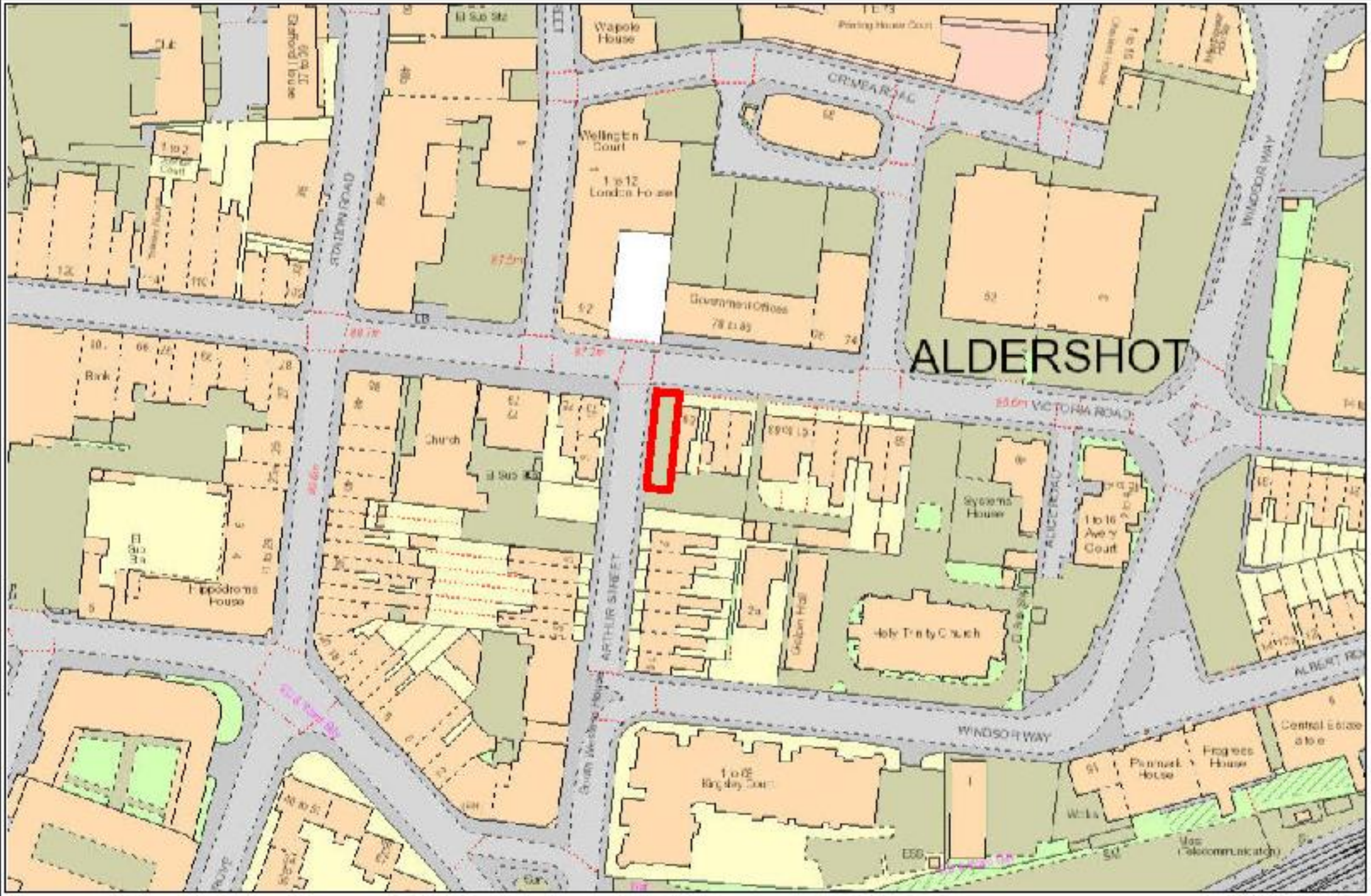

Land adjacent 69 Victoria Road

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5. Land at Churchill Crescent

Site details	
Address	Land at Churchill Cres Farnborough GU14 8EL
Description	Amenity space
Site Area	To be confirmed
Title	Registered HP662356
Access to Highway	confirmed
Planning	
Utilities	Checked 2016. New requests needed
Valuation	Currently included in model at £120,000 RICS valuation commissioned
Option appraisal	TBC
Financial appraisal	
Return on costs	
Cost to value	

Calendar Month	M	A	M	J	J	A	S	O	N	D	J	F
Project Month	1	2	3	4	5	6	7	8	9	10	11	12
Land at Churchill Crescent												
Instruct Valuers												
Valuation												
Preparation of planning submission												
Option appraisal												
Planning consent												
Cabinet report re transfer to housing co.								15				
Transfer										Aug	2020	→

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Land at Churchill Crescent

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Appendix Three

Risk No.	Risk Description	Risk Mitigation Owner	Initial Risk Value: Likelihood	Initial Risk Value: Impact	Initial Risk Value: Risk Value	Risk Action	Actions	Residual Value: Likelihood	Residual Value: Impact	Residual Value: Risk Value	Date Closed
1	Increase in Public Works Loan Board interest charges		1	3	3	TREAT (Mitigate to reduce risk, controls)	Rerun business plan, with sensitivities, to understand interest rate risk impact, keep a live exit strategy	1	2	2	
2	Changes in national or local priorities and policies restrict RBC's ability to fund		2	3	6	TERMINATE (eliminate risk)	Re run business plan to understand impact. Consider alternative funding sources. Consider disposals and exit strategy.	2	2	4	
3	Reduced rental values - including risk of introduction of rent controls		2	3	6	TERMINATE (eliminate risk)	Consistent monitoring of rental market and business plan to determine if sale of property is appropriate.	1	2	2	
4	Reduced capital growth rate		1	2	2	TERMINATE (eliminate risk)	Have a live exit strategy in place, and review continued investment appetite	1	1	1	
5	Repairs costs rising		2	3	6	TREAT (Mitigate to reduce risk, controls)	A good understanding of the condition of the property in the portfolio and age and replacement date of building elements Keep under review to determine whether sale of property is appropriate	1	2	2	
6	Increase in construction costs		2	3	6	TERMINATE (eliminate risk)	Re run business plan to understand impact. Open tendering of construction contracts. Consider disposals and exit strategy, if costs will not be covered by rents	2	2	4	
7	Poor project management leading to cost increases/delays/		2	3	6	TREAT (Mitigate to reduce risk, controls)	Assess need for external project management expertise. Thoroughly risk assess project prior to commencement and during construction period. Be clear about contractural responsibilities and include provision in scheme costs for client variations or do not permit client changes once contract is signed	1	2	2	
8	Business plan not performing as expected		1	3	3	TREAT (Mitigate to reduce risk, controls)	Review underlying assumptions, and assess if relevant in current climate, rerun with sensitivities to provide options , and implement stragetic changes	1	2	2	
9	Changes to taxation, corporation tax, SDLT, VAT		1	3	3	TREAT (Mitigate to reduce risk, controls)	Take advice as to options to change buisness model to mitigate imapct of taxation changes	1	2	2	
10	Expansion opportunities limited		1	3	3	TREAT (Mitigate to reduce risk, controls)	Review underlying assumptions, and assess if relevant in current climate, rerun with sensitivities to provide options , and implement stragetic changes	1	2	2	
11	Limited capacity to deliver programme - skills and expertise		3	3	9	TREAT (Mitigate to reduce risk, controls)	Consider costs of acquiring staff with relevant skills, training options, use of consultants. Re run business plan with these additional costs and adjust business plan outcomes.	2	2	4	
12	Operational risks - bad debts, damage to property, voids		3	3	9	TREAT (Mitigate to reduce risk, controls)	Specify rigorously and employ a suitably qualified managing agent. Careful tenant selection. Tenant support.	2	2	4	
13			1	1	1			1	1	1	

TABLE 3	Q4 2019 £000	Full Yr 2020/21 Yr 1 £000	Full Yr 2021/22 Yr 2 £000	Full Yr 2022/23 Yr 3 £000	Full Yr 2023/24 Yr 4 £000	Full Yr 2024/25 Yr 5 £000	Full Yr 2034/35 Yr 15 £000	Full Yr 2044/45 Yr 25 £000	Full Yr 2063/64 Yr 44 £000
Income received for interest charges to the company	0.0	63.8	307.4	539.9	597.0	617.2	646.5	586.8	7.4
Cost of Council borrowing	0.0	34.8	167.7	294.5	325.6	336.7	352.6	320.1	4.0
Net yield to the Council in relation to interest income/costs on borrowing	**0.0**	**29.0**	**139.7**	**245.4**	**271.4**	**280.5**	**293.9**	**266.7**	**3.4**
Income from company for supply of Council staff	0.0	95.00	35.9	36.8	37.7	38.6	49.5	63.4	101.3
Direct employment costs of Council staff supplied to company plus other direct costs incurred	0.0	65.0	24.0	25.0	25.0	26.0	33.0	42.0	68.0
Net yield to the Council in relation to Council staff and initial start-up costs	**0.0**	**30.0**	**11.9**	**11.8**	**12.7**	**12.6**	**16.5**	**21.4**	**33.3**
Total all net income received by the Council	**0.0**	**59.0**	**151.6**	**257.2**	**284.1**	**293.1**	**310.4**	**288.1**	**36.7**

COMMENTS CONTAINED WITHIN THE ARLINGCLOSE REVIEW	RESPONSES AND AMENDMENTS TO THE BUSINESS PLAN RELATING TO COMMENTS WITHIN THE ARLINGCLOSE REVIEW
1.4 The cost of recharges of support costs from the Council are only being inflated by 1.5% and not at the rate of inflation used for all other costs.	The financial model (and resulting tables of financial information shown in the Business Plan tabled at the Shadow Housing Board 09 12 2019) has now been updated to apply the inflation rate used for all other costs raising the rate up to 2.5%
1.5, 3.14 & 3.15 Rental inflation has been set at 2.5% in the model but the latest data available suggests that this is only 1.3%.	Local rental figures have been checked. These indicated a slowed growth rate therefore, the financial model (and resulting tables of financial information shown in the Business Plan tabled at the Shadow Housing Board 09 12 2019) has now been updated to apply an income inflation rate of 1.3% for the first 3 years of the company operation … then from month 37 onwards the income inflation rate has been reset to 2.5%
3.16 Cost price inflation has been modelled at 2.5%. With the current average of all CPI forecasts monitored by HM Treasury being 2.2% we are happy that 2.5% is used in the model.	The financial model (and resulting tables of financial information shown in the Business Plan tabled at the Shadow Housing Board 09 12 2019) has now been updated to apply a cost inflation rate of 2.2% for the first 3 years of the company operation, then from month 37 onwards, the cost inflation rate has been reset to 2.5%
1.6 & 3.17 One of the main risks outlined in the business plan is a change in the cost of funding and this has recently taken place with the change in PWLB rates announced on 9th October 2019. The 50-year PWLB rate is currently higher than the 2.80% used in the model and the cost of debt should be increased.	It is acknowledged that the PWLB rate has increased. The financial model (and resulting tables of financial information shown in the Business Plan tabled at the Shadow Housing Board 09 12 2019) has now been updated for the potential that the PWLB 50-year rate is 3.0% (Published rate 3.20% less "certainty adjustment" of 0.20%). An ongoing review of the published PWLB rates is being undertaken by the Finance Unit of the Council. The commercial interest rate charged into the company model remains at 5.5%. The result of the increase in PWLB borrowing therefore does not directly affect the company financial model but does result in a modestly lower return on interest yield (commercial rate minus the PWLB long-term rate) to the Council (when compared to previous versions of the company financial model).
1.7 Assumptions have been made in the model around taxation and the treatment of the loan interest charged to the company by the Council, this may need to be revisited. It is also noted that State Aid has not been mentioned.	These comments (at 1.7) made by Arlingclose expand to content related to the following paragraphs of their Review document … 4.6, 4.7 & 4.8. References in these (Arlingclose) paragraphs are made to "Transfer Pricing", "Thin Capitalisation" & “State Aid” See the following cells, each with comment on "Transfer Pricing", "Thin Capitalisation" & State Aid”.

"Transfer Pricing"	The UK's transfer pricing legislation details how transactions between connected parties are handled and in common with many other countries is based on the internationally recognised 'arm's length principle'. The 'arm's length principle' applies to transactions between connected parties. For tax purposes such transactions are treated by reference to the profit that would have arisen if the transactions had been carried out under comparable conditions by independent parties. The Council intends to make land transfers to the company at market value subject to use for market rent and provide Council staffing resources at full cost recovery … i.e. cost of (proportionate employment) + element of Council overheads. Some of the sites are marginal for housing use. It may be that the Council will sell these sites for no consideration in order to enable a viable scheme to be developed. In these circumstances the Council may rely upon disposal for less than best consideration on the grounds that it will help secure improvement of economic, social or environmental wellbeing of its area. This would be an approach that the Council might adopt if it wished to secure housing with a Registered Provider or a private company in these circumstances. Therefore it is not considered that there are any circumstances intended where the transfer price of goods or services between the two parties varies from the "transfer pricing" principle.
"Thin Capitalisation"	It should be noted that taxation advice had previously been sought from Freeths who produced a Tax Advice review for the Council in June 2018. It is notable in this review that the subject of "thin capitalisation" was considered. A summary of the comments from Freeths about this matter were contained in their document > "A key corporation tax consideration for the wholly owned company (WOC) will be the deductibility of finance costs – as the WOC's finance will be provided by a connected party (the Council), it will be important to ensure that all transactions between the WOC and the Council take place on arm's length terms. With regard to finance costs, there are two important points to keep in mind: There are specific rules which can apply to limit the amount of interest expenses which can be deducted when computing profits. These rules typically apply where finance is provided by a connected party and the rate of interest is considered to be excessive (thereby reducing the level of profits subject to corporation tax). *These rules are unlikely to be relevant as the Council is required to transact with the WOC on commercial terms in order to comply with the Council's non-tax obligations.* It will however be important to note that it may in future be necessary to evidence the commerciality of the loans for tax purposes in future. The 'Corporate Interest Restriction' rules have recently been introduced: These rules apply to limit the amount of interest that a group may deduct when calculating profits. The deductible group interest expense is limited, with the limit calculated using group earnings before income tax depreciation and amortisation (EBITDA). The rules will only apply to limit deductible interest if the aggregate net interest cost of the group exceeds £2m. With regard to the WOC, the current funding cost is expected to be in the region of c£14m, and the proposed rate of interest charged to the WOC is in the region of 5% to 5.5%. Therefore the WOC will have an interest expense of c£700k to c£770k and will be below the current £2m threshold.

	It will however be important to consider loans made to the WOC, both in the context of any other group lending made by the Council and also if a later decision is made to expand the activities of the WOC, such that the £2m threshold could be breached.
"State Aid"	State Aid is an advantage that may be given by public authorities to undertakings (any entity which places goods or services on the market) which may distort competition and affect trade in the European Union. Hence, determination of State Aid implications needs to be considered in the circumstances of the Council lending funds to the company. Quantification of State Aid can be calculated by modelling the Net Present Value (NPV) of the Council's investment (into the company) using both the "offered rate" (to show the actual cost to the company) compared to a "reference rate" (an equivalent rate that the company would be able to procure in the market). The calculation is performed over three-year rolling periods utilising a discount rate that is linked (by adding 100 basis points) to a Base Rate that is calculated in accordance with communications from the European Commission. This Base Rate is derived from 1-year money market rates (1-year IBOR) and is fixed by the EC. Observation on-line in November 2019 shows a rate of 0.90%. For borrowers that do not have a credit history or a rating based on a balance sheet approach, such as certain special-purpose companies or start-up companies, it is noted that the base rate should be increased by at least 400 basis points in order to determine the reference rate. A reasonable assessment of the Council's lending to the company reveals a rate "offered" of 5.50% and a "reference" rate of 4.90% (0.90% + 400 basis points). There is room therefore for the "reference" rate to be increased by a further 60 basis points to match the "offered" rate. If the "offered" rate exceeds the "reference" rate then the calculation described in this cell will have no relevance. If the reference rate is found to exceed the offered rate then a de minimis regulation is employed that sets a threshold figure below which the above quantification will not apply because it will be assumed that the aid will not distort competition. Currently this de minimis limit is 200000 Euros (measured over a three year rolling period).
1.8 The Councils suggested MRP policy will have a major impact on the returns to the Council and this should be cleared with the Councils external auditor.	The Council's policy on Minimum Revenue Provision (MRP) is approved in advance of each financial year at each Full Council in the latter half of February preceding the coming financial year … e.g. the MRP for the year 19/20 was contained within Appendix 3 of the Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2019/20 Agenda item No. 6(3) within the agenda for Full Council 21st February 2019. Page 221 of the agenda pack. Reference within the MRP for 19/20 provides the following: "1.7 Where loans are made to other bodies and designated as capital expenditure, no MRP will be charged. However, the capital receipts generated by the repayments on those loans will be set aside to repay debt instead." The above reference will appear within future MRP policies submitted to the Council for approval.

APPENDIX 3

1.9 The business plan includes all the relevant information expected by the guidance issued by the Secretary of State, but some additional information should be included:	Arlingclose make specific reference to the following: • Market assessment • Affordable Rent • Risks • Exit Strategy Each of these references is reviewed in the following cells
"Market assessment"	Recent conversations with a leading agency in the area indicate that although there has been a slowdown in the sales market there remains high demand for housing for rent with homes letting quickly. It was the view of the agents that prices are starting to rise due to demand vs supply. In the earlier part of the year there had been a significant level of new supply locally which while it had not materially affected letting rates had limited the ability to increase initial rents. However annual rent reviews are not meeting market resistance to increases.
"Affordable Rent"	A version of the financial model has previously been tested in relation to affordable rent housing units. Advice was given by a consultant appointed by the Council (Regenco) on this matter. Building development costs were linked to the introduction of a capital grant injection held on the company balance sheet during the time of creation, and related rental income estimates were subsequently reduced to accord with the terms of "affordable rent". The grant lays dormant on the company balance sheet as time progresses producing a corresponding lower company debt (interest) requirement, but this is exceeded by the resulting reduction in rental income. From a financial stance the conclusion was that the impact of dealing with affordable housing is unlikely to enhance Business Plan prospects and would be significantly negative without capital subsidy. The company could therefore not undertake this type of housing unless it was in receipt of subsidy or had become established and generated a surplus which with the Council it wished to invest in this way.
" Risks"	The risk rating for increases in the Public Works Loan Board interest charges has been adjusted to reflect that changes have occurred recently. Although these recent changes have not significantly adversely affected the business plan the risk of such changes occurring has been increased. An additional risk has been added to reflect the possibility of changes in central government's approach to the use of wholly owned companies to delivery housing.
"Exit Strategy"	In the context of the housing company its "Exit Strategy" is a contingency plan that could be executed by the Council (as business owner) to liquidate its assets and carry out disposal of the tangible business assets once predetermined criteria has been met or exceeded. An Exit Strategy taking account of the matters set out below has now been developed and is included within the Business Plan The prospect of the company's forward financial/operational plans being significantly impaired by the following predetermined criteria should be included in its Exit Strategy: • Changes in Government legislation regarding private landlord operations (that may result in cost increase or income restriction)

	• Local economic changes affecting private landlord operations (that may result in cost increase or income restriction/significant void periods) • A long & continued decline in property valuations • Imposition of Government changes in Local Authority lending methodology • A change in the Council's treasury management policy resulting in PWLB (or other) funding becoming too expensive to negotiate an ongoing commercial rate for the company's borrowing … leading to the other lending options from other potential funders becoming too high to consider as an alternative funding solution • Change in the Council's stance regarding its control and ownership of a company • Failure of building contractors to complete on time and/or within budget plan The company should therefore consider continued monitoring of matters such as: • The availability to the Council of its ability to acquire a long-term lending rate (PWLB & other) … linked to the commercial rate that the company will be required to undertake • The availability of other (private) funding solutions • Local market availability of private rented units • Local market rent indices • Local market property valuations • Cost inflation • Government/Local changes in the requirements on private landlord management of their dwelling units It is likely that the financial risks associated with the company are higher during the first 4 years when it is in the development stage of the 15 sites/57 units. Contingency plans in order to mitigate financial burden and operational disruption should be raised in advance for all site developments. A summary of these individual contingency plans should be constantly monitored including a quantification of a financial loss measure that could trigger the need for the company to exit the market and wind the business up.
5.1 If the Council is relying on the use of the Localism Act 2011 and pre-commencement powers to deliver housing, then there is a specific provision within the 2011 Act which require that where activities are carried out for a commercial purpose then this must be through a company structure … continued in paragraphs 5.2 & 5.3	Arlingclose indicate that the Council cannot make a "commercial" charge for the staff who will be utilised to carry out functions for the company. Senior management have been consulted about the matter of making a commercial charge via a private company owned by the Council. In this circumstance it is not considered worthwhile to pursue the creation of a specific company in order to make charges for staffing on a commercial basis. The current financial model now contains cost estimates for the use of Council staff based on the calculation of staffing cost of employment + proportion of administrative and central overheads … charged now at cost + fair apportionment of overheads … not prepared on a commercial basis.

APPENDIX 4

RUSHMOOR BOROUGH COUNCIL

Project Risk Analysis

Housing Company

Project Manager	Project Sponsor
Sally Ravenhill	Karen Edwards Corporate Director

Risk No.	Risk Description	Risk Mitigation Owner	Initial Risk Value: Likelihood	Initial Risk Value: Impact	Initial Risk Value: Risk Value	Risk Action	Actions	Residual Value: Likelihood	Residual Value: Impact	Residual Value: Risk Value	Date Closed
1	Regulatory Change		1	**3**	**3**	TREAT (Mitigate to reduce risk, controls)	Consider regulatory changes. Assess potential for company to adapt to changes. Re run business plan in consultation with Housing Company. Review exit strategy and potential for disposals.	**1**	**2**	**2**	
2	Increase in Public Works Loan Board interest charges		2	3	6	TREAT (Mitigate to reduce risk, controls)	Rerun business plan in consultation with Housing Company. Run sensitivity testing, to understand interest rate risk impact. Check exit strategy and consider appetite for continuing to invest in the Housing company and consider disposals.	2	2	4	
3	Changes in national or local priorities and policies restrict RBC's ability to fund		2	3	6	TERMINATE (eliminate risk)	Re run business plan to understand impact. Consider alternative funding sources. Check exit strategy. Check asset values. Consider disposals.	2	2	4	
4	Reduced rental values - including risk of introduction of rent controls		2	3	6	TERMINATE (eliminate risk)	Consistent monitoring of rental market and business plan. Re run financial modelling in consultation with Housing Company to determine impact and consider if sale of property is appropriate.	2	2	4	
5	Reduced capital growth rate		1	2	2	TREAT (Mitigate to reduce risk, controls)	Have a good understanding of the housing market and asset values. Check appetite for continuing investment in housing assets. Consider potential for disposals in consultation with Housing Company.	1	1	1	
6	Repairs costs rising		2	3	6	TREAT (Mitigate to reduce risk, controls)	A good understanding of the condition of the property in the portfolio and age and replacement date of building elements Keep under review to determine whether sale of high cost properties is appropriate. Tender repairs contract regularly	1	2	2	
7	Increase in construction costs		2	3	6	TERMINATE (eliminate risk)	Re run business plan to understand impact. Open tendering of construction contracts. Consider disposals and exit strategy, if costs will not be covered by rents	2	2	4	
8	Poor project management leading to cost increases/delays/		2	3	6	TREAT (Mitigate to reduce risk, controls)	Make sure that the company is employing the necessary expertise in project management. Make sure that the company has processes that thoroughly risk assesses projects prior to commencement and during construction period. Be sure the company is clear about contractural responsibilities and include provision in scheme costs for client variations or do not permit client changes once contract is signed	1	2	2	
9	Business plan not performing as expected		1	3	3	TREAT (Mitigate to reduce risk, controls)	Review underlying assumptions, and assess if relevant in current climate, rerun financial modelling with sensitivities to provide options , and implement stragetic changes	1	2	2	
10	Changes to taxation, corporation tax, SDLT, VAT		1	3	3	TREAT (Mitigate to reduce risk, controls)	Take advice as to options to change buisness model to mitigate imapct of taxation changes	1	2	2	

11	Expansion opportunities limited		1	3	3	TREAT (Mitigate to reduce risk, controls)	Review underlying assumptions, and assess if relevant in current climate, rerun with sensitivities to provide options. Consider impact of not growing the company for private market rent encourage the company to consider opportunities in other types of housing	1	2	2	
12	Limited capacity to deliver programme - skills and expertise		3	3	9	TREAT (Mitigate to reduce risk, controls)	Make sure the company is employing and retaining staff with relevant skills considers training options and use of consultants. Consider the impact of additional costs on the business plan.	2	2	4	
13	Operational risks - bad debts, damage to property, voids		3	3	9	TREAT (Mitigate to reduce risk, controls)	Specify rigorously and employ a suitably qualified managing agent. Careful tenant selection. Tenant support.	2	2	4	

REPORTS OF CABINET AND COMMITTEES

To receive and ask questions on the Reports of the following Meetings (copies attached):

Cabinet	16th December, 2019
	7th January, 2020
	4th February. 2020

Committees

Licensing, Audit and General Purposes	25th November, 2019
Development Management	4th December, 2019
Development Management	15th January, 2020
Licensing, Audit and General Purposes	27th January, 2020

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CABINET

Meeting held on Monday, 16th December, 2019 at the Council Offices, Farnborough at 5.00 pm.

Voting Members

Cllr D.E. Clifford, Leader of the Council
Cllr K.H. Muschamp, Deputy Leader and Customer Experience and Improvement Portfolio Holder

Cllr Marina Munro, Planning and Economy Portfolio Holder
Cllr A.R. Newell, Democracy, Strategy and Partnerships Portfolio Holder
Cllr M.L. Sheehan, Operational Services Portfolio Holder
Cllr P.G. Taylor, Corporate Services Portfolio Holder
Cllr M.J. Tennant, Major Projects and Property Portfolio Holder

The Cabinet considered the following matters at the above-mentioned meeting. All executive decisions of the Cabinet shall become effective, subject to the call-in procedure, from **2nd January, 2019**.

60. **MINUTES** –

The Minutes of the meeting of the Cabinet held on 12th November, 2019 were confirmed and signed by the Chairman.

61. **COUNCIL TAX SUPPORT SCHEME 2020/21** –
(Cllr Paul Taylor, Corporate Services Portfolio Holder)

The Cabinet considered Report No. FIN1934, which set out the work carried out by the Council's Council Tax Support Task and Finish Group in respect of potential changes to the Council Tax Support Scheme. The Chairman welcomed Cllr Mrs. D.B. Bedford, Chairman of the Council Tax Support Task and Finish Group, who was attending to report on the Group's recommendations.

The Council Tax Support Task and Finish Group had met on 1st August, 2019 and 8th October, 2019 to consider its recommendations to the Cabinet. The Group had paid specific attention to a number of matters during its deliberations and these were set out in paragraph 2 of the Report. Having considered all relevant data that had been available, the Group recommended that no changes should be made to the Council Tax Support Scheme for 2020/21. This would mean that the minimum contribution would remain at 12%. Additionally, it was recommended that a fundamental review of the Scheme should be started in 2020, specifically to consider the impact of the roll out of Universal Credit on Rushmoor residents and the Council, to look at improvements to reduce the administrative burdens on the Council and to make the Scheme easier to understand for the customer.

In considering the proposal, the Cabinet expressed broad support for this approach.

The Cabinet

(i) **RECOMMENDED TO THE COUNCIL** that the current Council Tax Support Scheme be retained for 2020/21; and

(ii) **RESOLVED** that:

(a) the deliberations and considerations of the Council Tax Support Task and Finish Group in arriving at its recommendations, as set out in Report No. FIN1934, be noted; and

(b) the Council Tax Support Task and Finish Group be requested to carry out a review of the Council's Council Tax Support Scheme, starting in 2020, as set out in the Report.

62. **PROPOSED VARIATION TO THE SCHEME OF HACKNEY CARRIAGE FARES** – (Cllr Maurice Sheehan, Operational Services Portfolio Holder)

The Cabinet considered Report No. OS1909, which outlined proposals to vary the current scheme of hackney carriage fares, which had been last amended on 1st September, 2018.

The Report set out two proposals to vary the current scheme of fares. The taxi trade had submitted a proposal and the other had been devised by the Council in response to Members' concerns about the existing scheme. Members were asked to consider whether to approve either proposal for public consultation. It was confirmed that the Council-devised proposal had been aimed at producing a scheme that was easier to understand and that eliminated extra charges wherever possible, such as for telephone or internet bookings and for journeys that crossed the Borough's boundaries. Members were informed that the matter would be brought back to the Cabinet for a final decision in the event of representations being received during the consultation exercise. The provisional implementation date of a revised scheme of fares would be 1st March, 2020.

The Cabinet RESOLVED that

(i) the proposed scheme of fares, as set out in Appendix C to Report No. OS1909, be approved for public consultation;

(ii) in the event of representations being received during the consultation stage, the matter be brought back to the Cabinet for consideration at its meeting on 4th February, 2020; and

(iii) a provisional implementation date of 1st March, 2020 be approved for the revised scheme of fares, subject to the outcome of the consideration of any representations received during the consultation exercise.

63. **PROPOSED TAXI SHARING ARRANGEMENTS FOR FARNBOROUGH INTERNATIONAL AIRSHOW 2020** –
(Cllr Maurice Sheehan, Operational Services Portfolio Holder)

The Cabinet considered Report No. OS1917, which outlined proposals for a taxi-sharing scheme to run for the duration of the Farnborough International Airshow 2020.

Members were informed that similar schemes had operated successfully at each Airshow since 2004. It was reported that this year's proposed scheme was similar to that implemented in 2018 but with an uplift to the fare to be charged. Details of how the scheme would operate were set out in the Report.

The Cabinet RESOLVED that

(i) the proposed taxi-sharing scheme, as set out in Report No. OS1917, be approved for public consultation; and

(ii) following the period of public consultation, the Operational Services Portfolio Holder, in consultation with the Head of Operational Services, be authorised to approve the final 2020 Scheme and any future taxi sharing proposals, taking account of any responses received during the consultation exercise.

64. **DRAFT LOCALLY LISTED HERITAGE ASSETS SUPPLEMENTARY PLANNING DOCUMENT** –
(Cllr Marina Munro, Planning and Economy Portfolio Holder)

The Cabinet considered Report No. EPSH1951, which set out the draft Locally Listed Heritage Assets Supplementary Planning Document (SPD) and sought agreement for this to be published for consultation and, following the consultation period, adopted.

Members were informed that the purpose of this SPD was to provide further guidance to support the implementation of Policy HE1: Heritage and Policy HE2: Demolition of a Heritage Asset, which were contained in the recently adopted Rushmoor Local Plan. It was proposed that the Cabinet would adopt the SPD, subject to no substantive policy or resource objections being received during the consultation exercise. If such objections were received, the matter would be brought back to the Cabinet for further consideration.

The Cabinet RESOLVED that

(i) the draft Locally Listed Heritage Assets SPD be approved for public consultation for a period of six weeks;

(ii) the Head of Economy, Planning and Strategic Housing, in consultation with the Planning and Economy Portfolio Holder, be authorised to make factual and/or non-substantive minor amendments to the SPD prior to consultation and adoption, including an alteration to entry no. LL5130 in the Rushmoor Local List to read "Former Catholic Church of Our Lady Help of Christians, Queens Road, Farnborough";

(iii) subject to no substantive policy or resource objections being received during that time, the adoption of the Locally Listed Heritage Assets Supplementary Planning Document, as set out in Appendix 1 to Report No. EPSH1951, and subject to any subsequent minor amendments, be approved; and

(iv) in the event of substantive policy or resource objections being received, the matter be brought back to the Cabinet for consideration.

65. **REVIEW OF CONSERVATION AREAS** –
(Cllr Marina Munro, Planning and Economy Portfolio Holder)

The Cabinet considered Report No. EPSH1950, which set out information relating to reviews of the Cargate Avenue and Aldershot Military Town Conservation Areas.

Members were informed that these reviews were part of a comprehensive review of the Council's eight conservation areas and set out draft character appraisals, including proposed boundary changes and management plans, for each conservation area, together with draft Article 4 directions, that would remove certain permitted development rights in the vicinities.

In discussing the revised boundaries of the Aldershot Military Town Conservation Area, the Cabinet was keen to ensure that future development in respect of the Wellesley site would not be hindered by any changes.

The Cabinet RESOLVED that

(i) the Head of Economy, Planning and Strategic Housing, in consultation with the Planning and Economy Portfolio Holder, be authorised to amend the conservation area proposals for consultation relating to the Aldershot Military Town to remove the addition of the playing fields to the west of the A325;

(ii) subject to the above amendment, the draft character appraisals, including the proposed boundary changes and Management Plans, and draft Article 4 directions for the Cargate Avenue and Aldershot Military Town Conservation Areas and the draft Conservation Areas Overview be approved for public consultation for a period of six weeks;

(iii) the Head of Economy, Planning and Strategic Housing, in consultation with the Planning and Economy Portfolio Holder, be authorised to make factual and/or non-substantive minor amendments to the documents prior to consultation and adoption;

(iv) following the consultation period and subject to no substantive objections being received during that time, the adoption of the character appraisals, including the proposed boundary changes and management plans, and Article 4 directions for the Cargate Avenue and Aldershot Military Town Conservation Areas and the draft Conservation Areas Overview, as set out in Report No. EPSH1950, and subject to any subsequent minor amendments, be approved; and

(v) in the event of substantive objections being received, the matter be brought back to the Cabinet for consideration.

66. **RUSHMOOR PLAYGROUND STRATEGY** –
(Cllr Maurice Sheehan, Operational Services Portfolio Holder)

The Cabinet considered Report No. OS1916, which sought approval for the Council's Rushmoor Playground Strategy. The Chairman welcomed Cllr J.B. Canty, Chairman of the Policy and Project Advisory Board (PPAB), who was attending to report on the Board's contribution to the development of the document.

Members were informed that the Strategy would seek to ensure the provision of a network of high quality, diverse play facilities across the Borough. PPAB would continue to play an active part in the delivery of the Strategy.

In response to a question, it was confirmed that the viability of providing refreshment outlets in some parks in Rushmoor would be considered as a priority.

The Cabinet RESOLVED that the Rushmoor Playground Strategy 2020 - 2030, as set out in Appendix 1 to Report No. OS1916, be approved.

67. **PROCUREMENT OF A NEW LEISURE OPERATING CONTRACT AND FUTURE LEISURE PROVISION** –
(Cllr Maurice Sheehan, Operational Services Portfolio Holder)

The Cabinet considered Report No. OS1915, which set out the proposed approach for the procurement of a new leisure operating services contract covering the Farnborough Leisure Centre and Aldershot Indoor Pools and Lido complex. The Chairman welcomed Mrs Katherine Everard, Committee Member of Rushmoor Indoor Bowling Club, who had requested to address the Cabinet on this issue.

Members were informed that, in February, 2019, GT3 Architects, along with Strategic Leisure Limited, had been appointed to assist Council officers in looking at options for the future provision of leisure facilities across the Borough, including the Farnborough Leisure Centre. Members' attention was brought to paragraph 4.9 of the Report which set out a recommended facilities mix for a new leisure facility. This recommended that the facilities mix did not include the reprovision of an indoor bowls rink. A Headline Needs Analysis had been prepared and had identified that indoor bowls could be provided as a stand-alone facility. The build cost of a new facility, or the re-purposing of an existing building or facility, would have a lower cost than the estimated £2.7 million cost of incorporating indoor bowls in a new leisure centre, based on 1000 square metres of space at a build cost of £2,700 per square metre.

Given the impact of this on the Rushmoor Indoor Bowling Club, who were the primary users of the current facility, the Council had contacted the Club advising them of the recommendations and had invited the Club to work with officers to consider alternative options. A budget of £10,000 was to be set aside to support this work.

The Cabinet heard from Mrs Everard, who was speaking on behalf of the Rushmoor Indoor Bowls Club. Mrs Everard brought the Cabinet's attention to the written representations that had been submitted. Mrs Everard raised further points including:

- that the increase in population from extensive developments in the area would have the potential to increase demand for indoor bowls facilities

- could S106 developers' contributions be used to fund the provision of indoor bowls in the mix for a new leisure facility?

- that the current location was ideal in terms of access for the Club's members, especially in terms of public transport links.

The Cabinet considered the representations made.

The Cabinet RESOLVED that

(i) the Head of Operational Services, in consultation with the Operational Services Portfolio Holder, be authorised to carry out the procurement of a new contract, as set out in Report No. OS1915, using a process of competitive dialogue, including making amendments to and finalising the documentation for use throughout the procurement process;

(ii) the procurement documentation and conditions of contract, as set out in Appendices 3 – 6 to the Report, be approved as the basis for the procurement;

(iii) a total procurement project budget of £50,000, to be included in the revised revenue estimates for 2019/20, be approved, with flexibility to carry forward any unspent balance into 2020/21;

(iv) in order to bring forward the next stage of a new leisure centre in Farnborough as agreed in the Corporate Plan, the facility mix, as set out in Paragraph 4.9 of the Report and the setting aside of £100,000 of the Civic Quarter Farnborough Development Capital Budget for the feasibility and design work for the leisure centre, be approved; and

(v) Rushmoor officers be authorised to work with the Rushmoor Indoor Bowling Club to look at alternative options for indoor bowls and that a budget of £10,000 be approved to support initial feasibility work.

68. **EXCLUSION OF THE PUBLIC** –

RESOLVED: That, taking into account the public interest test, the public be excluded from the meeting during the discussion of the under mentioned item to avoid the disclosure of exempt information within the paragraph of Schedule 12A to the Local Government Act, 1972 indicated against the item:

Minute No.	**Schedule 12A Para. No.**	**Category**
69	3	Information relating to financial or business affairs

THE FOLLOWING ITEM WAS CONSIDERED IN THE ABSENCE OF THE PUBLIC

69. **PROPERTY INVESTMENT PURCHASE** –
(Cllr Martin Tennant, Major Projects and Property Portfolio Holder)

The Cabinet considered Exempt Report No. RP1926, which set out a proposal to acquire the freehold investment in a property and the leasehold interest in associated car parking for the property, as part of the asset investment programme in the Council's Medium Term Financial Strategy.

The Cabinet was informed that the acquisition was proposed in the context of the Investment Property Strategy, which had been undertaken by officers and had been supported by Lambert Smith Hampton Investment Management. The Strategy was focussed on the Council's requirement for long term and stable income from its commercial property portfolio. Members considered that the 4.86% net initial yield represented a good initial return for the Council on the basis of the uplifts set out in the Report.

The Cabinet RESOLVED that

(i) the purchase of the property and associated car parking, as set out in Exempt Report No. RP1926, be approved;

(ii) the Executive Head of Regeneration and Property, in consultation with the Major Projects and Property Portfolio Holder, be authorised to conclude negotiations, subject to due diligence, for the acquisitions, with a maximum financial commitment as set out in the Report;

(iii) the additional revenue expenditure in 2019/20, as set out in paragraph 4.15 of the Report, be approved; and

(iv) the extension of the delegation to the Executive Head of Regeneration and Property in respect of leases of up to £250,000 per annum, as set out in paragraph 3 of the Report, be approved until the consideration of the review of the Council's Constitution at the Council meeting on 26th May, 2020.

The Meeting closed at 6.21 pm.

CLLR D.E. CLIFFORD, LEADER OF THE COUNCIL

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CABINET

Meeting held on Tuesday, 7th January, 2020 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr D.E. Clifford, Leader of the Council
Cllr K.H. Muschamp, Deputy Leader and Customer Experience and Improvement Portfolio Holder

Cllr Marina Munro, Planning and Economy Portfolio Holder
Cllr A.R. Newell, Democracy, Strategy and Partnerships Portfolio Holder
Cllr M.L. Sheehan, Operational Services Portfolio Holder
Cllr P.G. Taylor, Corporate Services Portfolio Holder
Cllr M.J. Tennant, Major Projects and Property Portfolio Holder

The Cabinet considered the following matters at the above-mentioned meeting. All executive decisions of the Cabinet shall become effective, subject to the call-in procedure, from **20th January, 2020**.

70. **MINUTES** –

The Minutes of the meeting of the Cabinet held on 16th December, 2019 were confirmed and signed by the Chairman.

71. **FARNBOROUGH AIRPORT COMMUNITY ENVIRONMENTAL FUND** –
(Cllr Maurice Sheehan, Operational Services Portfolio Holder)

The Cabinet considered Report No. DSP2001, which sought approval to award a grant from the Farnborough Airport Community Environmental Fund, which had been set up to assist local projects.

The Operational Services Portfolio Holder had considered the application by the Tower Hill Primary School, Fowler Road, Farnborough for an award of £10,000 towards the cost of the installation of an outside environmental classroom area. It was confirmed that this application met all of the agreed criteria.

The Cabinet RESOLVED that a grant of £10,000 be awarded from the Farnborough Airport Community Environmental Fund to the Tower Hill Primary School.

NOTE: Cllr A.R. Newell declared a personal but non prejudicial interest in this item in respect of the attendance of his grandchildren at the school and, in accordance with the Members' Code of Conduct, remained in the meeting during the discussion and voting thereon.

72. **CIVIC QUARTER - ELLES HALL** –
(Cllr Martin Tennant, Major Projects and Property Portfolio Holder)

The Cabinet considered Report No. RP2001, which sought a capital budget of £95,000 to undertake the demolition of the Elles Hall, Farnborough, as part of the wider Civic Quarter regeneration project.

Members were informed that this was the former Community Centre building and that all of the Centre's former tenants had been successfully relocated into alternative premises. It was confirmed that, since closure, the building had been subject to vandalism and trespass. Furthermore, the building was currently attracting an empty property rates liability. For these reasons, it was recommended that the building should be demolished as soon as practicable.

In response to a question, it was confirmed that the Council's criteria for the selection of a contractor to carry out the demolition works would provide for local companies to submit a bid. The Cabinet was supportive of the proposed approach and, furthermore, agreed that the Executive Head of Regeneration and Property should be authorised to apply for the necessary permissions, including but not limited to planning, to carry out the demolition works at this site and across the Civic Quarter, as necessary.

The Cabinet RESOLVED that

(i) the provision of a capital budget of £95,000, to undertake the demolition and other pre-development works associated with the former Community Centre building, as set out in Report No. RP2001, be approved; and

(ii) the Executive Head of Regeneration and Property be authorised to apply for the necessary permissions, including but not limited to planning, associated with the demolition and other pre-development works at this site and across the Civic Quarter, as necessary.

73. **EXCLUSION OF THE PUBLIC** –

RESOLVED: That, taking into account the public interest test, the public be excluded from the meeting during the discussion of the under mentioned item to avoid the disclosure of exempt information within the paragraph of Schedule 12A to the Local Government Act, 1972 indicated against the item:

Minute No.	**Schedule 12A Para. No.**	**Category**
74	3	Information relating to financial or business affairs

THE FOLLOWING ITEM WAS CONSIDERED IN THE ABSENCE OF THE PUBLIC

74. **APPLICATION FOR SECTION 49 REMISSION OF NON-DOMESTIC RATES** –
(Cllr Paul Taylor, Corporate Services Portfolio Holder)

The Cabinet considered Exempt Report No. FIN2001, which set out an application for the remission of non-domestic rates on the grounds of hardship.

Members assessed the application from Actfern Investments Limited, Nos. 61 – 62 Wellington Centre, Aldershot, taking into account the evidence of financial hardship supplied and whether it was in the interests of local taxpayers to subsidise the business. The Cabinet took into account the nature and circumstances of the business and the availability of alternative facilities in the area. The Corporate Services Portfolio Holder and the Council's Principal Revenues and Benefits Officer had examined the application in detail, including subsequent information requested in relation to the company's future business plan, which was set out in the Report.

The Cabinet RESOLVED that 50% hardship relief be granted to Actfern Investments Limited for the period from 1st April, 2019 to 31st March, 2020.

NOTE: Cllr K.H. Muschamp declared a prejudicial interest in this item in respect of his acquaintance with the company director of Actfern Investments Limited and, in accordance with the Members' Code of Conduct, left the meeting prior to the discussion and voting thereon.

The Meeting closed at 7.12 pm.

CLLR D.E. CLIFFORD, LEADER OF THE COUNCIL

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CABINET

Meeting held on Tuesday, 4th February, 2020 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr D.E. Clifford, Leader of the Council
Cllr K.H. Muschamp, Deputy Leader and Customer Experience and Improvement Portfolio Holder

Cllr Marina Munro, Planning and Economy Portfolio Holder
Cllr A.R. Newell, Democracy, Strategy and Partnerships Portfolio Holder
Cllr M.L. Sheehan, Operational Services Portfolio Holder
Cllr P.G. Taylor, Corporate Services Portfolio Holder
Cllr M.J. Tennant, Major Projects and Property Portfolio Holder

The Cabinet considered the following matters at the above-mentioned meeting. All executive decisions of the Cabinet shall become effective, subject to the call-in procedure, from **17th February, 2020**.

75. **MINUTES** –

The Minutes of the meeting of the Cabinet held on 7th January, 2020 were confirmed and signed by the Chairman.

76. **REVENUE BUDGET, CAPITAL PROGRAMME AND COUNCIL TAX LEVEL** –
(Cllr Paul Taylor, Corporate Services Portfolio Holder)

The Cabinet considered Report No. FIN2007, which made recommendations on the budget, Council Tax requirement and proposals for budget savings for 2020/21.

The Cabinet was reminded that, at its meeting on 15th October, 2019, the budget framework set out in the Medium Term Financial Strategy 2020-24 had been approved. The Strategy provided a risk-based General Fund balance of around £2 million. The Cabinet was advised that the Report had been prepared on the basis that there would be no change to the provisional local government finance settlement figure. It was proposed that any changes which materially altered the figures contained in the budget summary, particularly in respect of the local government finance settlement figure or the business rates estimates, would be made by the Council's Section 151 Officer, in consultation with the Leader of the Council and the Corporate Services Portfolio Holder, prior to consideration of the budget by the Council on 20th February, 2020. The Cabinet was advised that the Council was in a good financial position for the coming year and that this would enable the Cabinet to set a balanced revenue budget for 2020/21. Members were informed that the Medium Term Financial Strategy was projecting a deficit from 2021/22 of £1.4 million, increasing to around £2.2 million by 2023/24.

The Capital Programme of £52.226 million in 2020/21 was set out in Appendix 4 of the Report. Implementation of the core programme in 2019/20 would require the use of £44.210 million of the Council's resources, largely through borrowing, together with £8.017 million use of grants and contributions, including the Better Care Fund, and an element of developers' Section 106 contributions. The main areas where the Council would be facing increased levels of risk and uncertainty over the medium term were set out in Section 9 of the Report. Members were informed that the most significant risks were the move to a 75% business rates retention model and the potential for the redistribution of funding under the Fair Funding Review, which would reallocate resources across local authorities based on an assessment of relative needs.

Under Section 25 of the Local Government Act, 2003, the Executive Head of Finance, being the Council's Chief Financial Officer, was required to report to the Council on the robustness of the estimates contained in the budget and the adequacy of the financial reserves maintained by the Council. The Council had to have regard to this report when making its decisions on the budget. The Chief Financial Officer was satisfied that the budget was robust and that it was supported by adequate reserves.

The Cabinet

(i) **RECOMMENDED TO THE COUNCIL** that approval be given to:

(a) the General Fund Revenue Budget Summary, as set out in Appendix 1 of Report No. FIN2007;

(b) the detailed General Fund Revenue Budget, as set out in Appendix 2 of the Report;

(c) the additional items for inclusion in the budget, as set out in Appendix 3 of the Report;

(d) the Council Tax requirement of £6,704,629 for this Council;

(e) the Council Tax level for Rushmoor Borough Council's purposes of £209.42 for a Band D property in 2020/21;

(f) the Capital Programme, as set out in Appendix 4 of the Report;

(g) the Strategy for the Flexible Use of Capital Receipts, as set out in Appendix 5 of the Report;

(h) the Executive Head of Finance's Report under Section 25 of the Local Government Act, 2003, as set out in Section 10 of the Report;

(i) the additional transfers to earmarked reserves in 2020/21 and the holding of reserves, as set out in the Report;

(j) the insurance arrangements, made through the Hampshire Insurance Forum and Aon and effective from April, 2020, resulting in an annual saving on premiums of £81,000, as set out Table 5 of the Report; and

(ii) **RESOLVED** that authority be delegated to the Council's Section 151 Officer, in consultation with the Leader of the Council and the Corporate Services Portfolio Holder, to make any necessary changes to the General Fund Summary arising from the final confirmation of the Local Government Finance Settlement and the Business Rates Retention Scheme estimates.

77. **ANNUAL TREASURY MANAGEMENT STRATEGY AND ANNUAL NON-TREASURY INVESTMENT STRATEGY 2020/21** –
(Cllr Paul Taylor, Corporate Services Portfolio Holder)

The Cabinet considered Report No. FIN2004, which set out the Council's proposed Treasury Management Strategy and Non-Treasury Investment Strategy (Investment Strategy) for 2020/21, along with the Minimum Revenue Provision Statement. Members were reminded that the purpose of the treasury management operation was to set out how the Council would manage its investments and borrowing over the coming year. It was confirmed that the Council performed strongly in terms of its treasury investments. Members were informed that the Council's external debt stood at around £90 million, at an average rate of 1.1% and that its commercial investment property portfolio was valued at around £110.58 million. It was reported that the Licensing, Audit and General Purposes Committee had supported the recommendations at its meeting on 27th January, 2020.

The Cabinet RECOMMENDED TO THE COUNCIL that approval be given to:

(i) the Treasury Management Strategy and Annual Borrowing Strategy, as set out in Appendix A of Report No. FIN2004;

(ii) the Annual Non-Treasury Investment Strategy, as set out in Appendix B of the Report; and

(iii) the Minimum Revenue Provision Statement, as set out in Appendix C of the Report.

78. **COMMERCIAL PROPERTY INVESTMENT STRATEGY** –
(Cllr Martin Tennant, Major Projects and Property Portfolio Holder)

The Cabinet considered Report No. RP2003, which sought approval for the Council's new Commercial Property Investment Strategy and for the establishment of a Property Investment Advisory Group to oversee the Strategy. Members were informed that the Strategy had been devised in partnership with Lambert Smith Hampton Investment Management, who had been appointed in November, 2019 to support the Council in managing and growing this part of the asset portfolio. It was confirmed that the Strategy would enable the Council to demonstrate a safe and structured approach to its commercial property activities.

The Cabinet RESOLVED that the Council's Commercial Property Investment Strategy, as set out in Appendix A to Report No. RP2003, be approved.

79. **ANNUAL CAPITAL STRATEGY 2020/21** –
(Cllr Paul Taylor, Corporate Services Portfolio Holder)

The Cabinet considered Report No. FIN2006, which set out the Council's Capital Strategy for 2020/21, which included the Prudential Indicators for Capital Finance. Members were informed that this Report complemented the Annual Treasury Management Strategy Report that had been considered earlier in the meeting.

Members were reminded that the purpose of the Capital Strategy was to give an overview of the Council's capital expenditure, capital financing and treasury management activities, along with an overview of how associated risks would be managed and the implications for future financial sustainability.

The Cabinet RECOMMENDED TO THE COUNCIL that approval be given to the Capital Strategy 2020/21 and Prudential Indicators, as set out in Appendix A to Report No. FIN2006.

80. **ANNUAL REVIEW OF FEES AND CHARGES** –
(Cllr Paul Taylor, Corporate Services Portfolio Holder)

The Cabinet considered Report No. FIN2008, which set out a proposed revised scheme of fees and charges for Council services.

Members were informed that the document included a description of the methodology applied in each case. The Cabinet considered the document and, in response to a question, it was confirmed that, where the Council was levying non-statutory fees or charges, officers would be asked to consider whether there was a commercial case for altering the level of such fees or charges, aside from the application of the annual inflationary uplift, if applicable.

The Cabinet RESOLVED that approval be given to

(i) the adoption of the various methodologies attached in Appendix A to Report No. FIN2008 as a basis for uplifting the Council's fees and charges;

(ii) the continued application of RPIx as the measure of inflation, where an annual inflationary uplift was specified; and

(iii) the fees and charges, as set out in Appendix A to the Report, for implementation on the applicable dates.

81. **COUNCIL BUSINESS PLAN QUARTERLY UPDATE OCTOBER - DECEMBER 2019/20** –
(Cllr David Clifford, Leader of the Council)

The Cabinet received Report No. ELT2001, which set out progress against the Council Business Plan, as at the end of the third quarter of the 2019/20 municipal year. The Report brought together monitoring information in respect of the actions identified as key activities in the three year business plan and the two key programmes of work that were essential in delivering the priorities, the Regenerating Rushmoor Programme and the ICE Programme. In response to a question, it was confirmed that the Council was likely to continue with its litter enforcement programme, following a successful pilot period.

The Cabinet NOTED the progress made towards delivering the Council Business Plan 2019/20, as set out in Report No. ELT2001.

82. **ESTABLISHING A LOCAL HOUSING COMPANY - THE HOUSING COMPANY BUSINESS PLAN** –
(Cllr Martin Tennant, Major Projects and Property Portfolio Holder)

The Cabinet considered Report No. RP2004, which set out the five-year business plan of the Council's local housing company for approval.

Members were reminded that the creation of a wholly owned company, limited by shares, to deliver housing in the Borough had been agreed by the Council at its meeting in April, 2019. It was confirmed that, over the first five years of operation, the company would need to borrow around £11,289,900 to fund its operations. It was predicted that, by the fifth year, the company would provide a net income of around £283,000 each year to the Council. Members were informed that the business plan had been subject to external scrutiny by the Council's treasury advisers, Arlingclose Limited. The Report set out the current list of sites that would be used to create the company's property portfolio but it was confirmed that this list was not fixed.

The Cabinet RECOMMENDED TO THE COUNCIL that

(i) the submission to the Chief Executive of the Council, as shareholder representative, of the draft five-year business plan, as set out in Appendix 1 to Report No. RP2004, in substantially the same form, once the company has been incorporated, be approved, at which time it would become the approved business plan for the company;

(ii) the sale of No. 12 Arthur Street, Aldershot and No. 154 Ship Lane, Farnborough to the housing company at market value, subject to the relevant valuation, be approved;

(iii) the Chief Executive, as shareholder representative, be authorised to approve any variations in the delivery programme contained in the business plan, subject to such variations delivering the outcomes of the business plan and being achievable within the agreed budget;

(iv) Cllr P.G. Taylor be appointed to the Shadow Board, to become a Council appointee to the company's Board of Directors on incorporation of the company;

(v) the procedures for the agreement of subsequent business plans or project business plans, as set out in paragraph 4.17 of the Report, be approved; and

(vi) the arrangements for performance and governance reporting, as set out in paragraph 4.18 of the Report, be approved.

83. **ADMINISTRATION AND MONITORING OF SECTION 106 AGREEMENTS** –
(Cllr Marina Munro, Planning and Economy Portfolio Holder)

The Cabinet considered Report No. EPSH2004, which sought approval to introduce a monitoring fee for Section 106 agreements and unilateral undertakings.

Members were informed that the Council had previously charged such a fee from 2012 – 2016 but this practice had been stopped for legal reasons. Since that time, further case law and Government guidance had confirmed that such fees were legitimate and appropriate.

The Cabinet RESOLVED that the introduction of an administration and monitoring fee, comprising 5% of the total financial contributions offered to the Council in any Section 106 agreement or undertaking, up to a maximum of £25,000 for full or hybrid applications and £12,500 for outline applications, to take effect in respect of any application received on or after 1st April, 2020 and be payable on implementation of the development, as set out in Report No. EPSH2004, be approved.

84. **SELF-BUILD AND CUSTOM HOUSEBUILDING REGISTER - INTRODUCTION OF ADDITIONAL LOCAL ELIGIBILITY CRITERIA AND A FEE CHARGING SCHEDULE** –
(Cllr Marina Munro, Planning and Economy Portfolio Holder)

The Cabinet considered Report No. EPSH2005, which sought approval for the introduction of additional local eligibility criteria in the form of a local connection test to determine entry to the Council's self-build and custom housebuilding register. Approval was also sought for the introduction of a fee charging structure for entry on the register and for applicants to stay on the register on an annual basis.

Members were informed that these steps would ensure that the Council's register was a realistic and genuine reflection of local demand and that the duty to grant permission was not inflated by demand from outside of the Borough.

In response to a question, it was confirmed that this charge would be reviewed in terms of commerciality, as with the Council's other non-statutory fees and charges.

The Cabinet RESOLVED that

(i) the introduction of a local connection test, as set out in Section 3.6 of Report No. EPSH2005, be approved;

(ii) the introduction of a fee for entry to the Council's register and for applicants to remain on Part 1 of the register be approved; and

(iii) the Executive Head of Finance be authorised to determine the fees to be charged on a cost recovery basis.

85. **EXCLUSION OF THE PUBLIC** –

RESOLVED: That, taking into account the public interest test, the public be excluded from the meeting during the discussion of the under mentioned item to avoid the disclosure of exempt information within the paragraph of Schedule 12A to the Local Government Act, 1972 indicated against the item:

Minute No.	**Schedule 12A Para. No.**	**Category**
86	3	Information relating to financial or business affairs

THE FOLLOWING ITEM WAS CONSIDERED IN THE ABSENCE OF THE PUBLIC

86. **ALDERSHOT TOWN CENTRE REGENERATION - UNION STREET** –
(Cllr Martin Tennant, Major Projects and Property Portfolio Holder)

The Cabinet considered Exempt Report No. RP2002, which sought approval to secure a freehold within the Union Street site, as part of the Aldershot town centre regeneration proposals and land assembly. The Chairman welcomed Mr E. Pitman, Savills Chartered Surveyors, who was acting as the Council's agent in this matter, to the meeting. The Chairman also invited the Leader of the Labour Group (Cllr K. Dibble) to join the meeting for this item.

Members were informed that the property in question was owned by a Rushmoor councillor and, for this reason, both the Council and the vendor had conducted negotiations through agents. The Council's agent explained the reasons why it would be preferable to acquire the property through negotiation, if possible. Property values and negotiation limits were discussed and it was considered prudent to obtain permission to proceed with a formal Compulsory Purchase Order (CPO) process should attempts to acquire the property by negotiation prove unsuccessful. Members were informed that authority was also being sought to acquire, either by negotiation or CPO, any other remaining interests in the wider Union Street site redline.

In response to a question, it was confirmed by the Council's agent that the proposed negotiation limits represented good value to the Council.

The Cabinet RESOLVED that

i) Council officers be authorised to acquire the property set out in Exempt Report No. RP2002 by negotiation up the amount outlined by the Council's advisers at the meeting;

ii) in the event that terms for the acquisition of the property could not be agreed by negotiation, Council officers be authorised to proceed with a formal Compulsory Purchase Order for this site; and

iii) to facilitate the progression of the whole site, Council officers be authorised to proceed with the formal Compulsory Purchase Order process for any remaining third party interests that fall within the defined Union Street redline, where the relevant interest could not be obtained through a negotiation process.

The Meeting closed at 8.13 pm.

CLLR D.E. CLIFFORD, LEADER OF THE COUNCIL

LICENSING, AUDIT AND GENERAL PURPOSES COMMITTEE

Meeting held on Monday, 25th November, 2019 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr J.E. Woolley (Chairman)
Cllr S.J. Masterson (Vice-Chairman)

Cllr J.B. Canty
Cllr A.K. Chowdhury
Cllr Veronica Graham-Green
Cllr Christine Guinness
Cllr A.J. Halstead
Cllr L. Jeffers
Cllr P.F. Rust
Cllr Jacqui Vosper

19. **MINUTES**

The Minutes of the meeting held on 16th October, 2019 were approved and signed by the Chairman.

20. **STATEMENT OF ACCOUNTS 2018/19 - UPDATE 2**

The Committee received the Executive Head of Finance's Report No. FIN1933 which informed Members of audit progress for the Council's Statement of Accounts for 2018/19 since the Committee meeting held on 23rd September, 2019.

The Committee was reminded that the statutory deadline for issuing a final set of audit statement of accounts and audit opinion of 31st July, 2019 had not been met, and noted that the Council was one of 208 public bodies (Councils, Fire and Rescue, Police and other local government bodies) which had not received an auditor opinion by the deadline. The delay in the opinion being issued continued to be mainly due to material changes in the valuation of the depot in Lysons Avenue in Ash Vale and the impact of the McCloud judgement on the Council's pension fund liability.

The Committee had received an External Audit Progress Report prepared by the auditors which set out a revised timetable for the completion of the audit and provision by them of the audit opinion. These were now scheduled to be considered at the next Committee meeting on 27th January, 2020.

RESOLVED: That

(i) the Executive Head of Finance's Report No. FIN1933 be noted; and

(ii) the Chief Executive, in consultation with the Chairman of the Licensing, Audit and General Purposes Committee, write a letter to the external auditors expressing the Council's disappointment with the delayed audit opinion and seeking reassurances that there would be no such delays for future audit opinions.

21. **TREASURY MANAGEMENT MID-YEAR REPORT**

The Committee received the Executive Head of Finance's Report No. FIN1931 which set out the main activities of the Treasury Management and non-Treasury Investment Operations during the first half of 2019/20, and noted that prudential indicators for the 2019/20 financial year had been updated for all treasury management and non-treasury activity during the first half of 2019/20.

The Committee was advised that the report was a statutory requirement under the CIPFA Code of Practice on Treasury Management. It was noted that the re-structuring of the investment portfolio during 2018/19 had improved diversification of funds and increased the yield on all treasury management investments by £188,000 from 2018/19.

Members were advised that the treasury team continually reviewed the borrowing strategy, weighing up interest rate levels and risk of refinancing. During the 2019/20 financial year, short-term interest rates had remained low and were forecast to remain low. However, borrowing levels had increased, raising refinancing risk. To mitigate, a proportion of borrowing had been moved to one- and two-year durations.

In respect of total borrowing, at 30th September, 2019 this was £84.3m, an increase of £23.1m from the 2018/19 year-end position. Year-end borrowing was forecast to be £116m below estimated levels due to timing of investment property purchases. It was noted that the lower level of borrowing had resulted in forecast interest cost on borrowing reducing by £270,000.

The Committee noted that the Council was forecast to have non-treasury investments risk exposure of £125.4m of which £82.2m was funded via external loans, whilst the return of non-treasury investments was forecast to be below estimated return for 2019/20 due to the cost associated with commercial property being clarified during the financial year.

RESOLVED: That the Executive Head of Finance's Report No. FIN1931 be noted.

22. **INTERNAL AUDIT UPDATE**

The Committee considered the Audit Manager's Report No. AUD1908 which gave an overview of the work completed by Internal Audit for Quarter 2 (including the work slipped from Quarter 1), an update on progress made on expected deliverables for Quarter 3, and a schedule of work expected to be delivered in Quarter 4.

The Committee was advised that, whilst there were some delays in the work expected to have been completed in Quarter 2, all had started and were due to finish within the timescales stated.

RESOLVED: That:

(i) the audit work carried out in Quarter 2 be noted;

(ii) the update to expected deliverables for Quarter 3 be noted; and

(iii) the expected deliverables for Quarter 4 be endorsed.

23. **ANNUAL GOVERNANCE STATEMENT - UPDATE**

The Committee received the Audit Manager's Report No. AUD1909 which described the work carried out to date to ensure the achievement of the actions detailed within the Annual Governance Statement (AGS).

It was noted that the Council was required by the Accounts and Audit Regulations 2015 to prepare and publish an AGS, and the provision of a mid-year update on the work being carried out towards the implementation of the actions detailed within the AGS was new, and aimed to highlight areas where target dates had been amended. The Committee was advised that, whilst target dates for some actions had been extended, most of the actions would still be on target to be completed by the end of the financial year. A further update would be provided to the Committee at its meeting in March 2020.

RESOLVED: That the work currently being carried out towards the implementation of the actions detailed within the Council's Annual Governance Statement be noted.

24. **LOCAL GOVERNMENT OMBUDSMAN COMPLAINTS REPORT**

The Committee received the Head of Customer Experience's Report No. CE0119 which provided an annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about Rushmoor Borough Council.

The Committee was advised that individual complaints about councils escalated to the LGO were reviewed by that body to ascertain if the correct decisions were made or reasonable measures had been taken to mitigate future issues. It was noted that Rushmoor had no complaints (0%) upheld during the reporting period of 1st April, 2018 to 31st March, 2019, compared to an average of 43% in similar authorities.

The Committee wished its appreciation of the Council's ongoing commitment to customer experience to be recorded.

RESOLVED: That the annual summary of statistics on the complaints made to the Local Government Ombudsman about Rushmoor Borough Council be noted.

25. **DATA PROTECTION POLICY AND DATA PROTECTION OFFICER APPOINTMENT**

The Committee received the Corporate Manager – Legal Services' Report No. LSIG1911 which sought approval to the Council's draft Data Protection Policy and sought approval to give delegated authority to the Corporate Manager – Legal Services to keep the Data Protection Policy under review and to update it as required.

It was noted that the Data Protection Policy formed part of the Information Governance Framework and its purpose was to explain the Council's approach to ensuring compliance with the Data Protection legislation by staff, Members and customers, when personal data was collected, processed and stored.

RESOLVED: That

(i) the draft Data Protection Policy be approved; and

(ii) the Corporate Manager – Legal Services be given delegated authority to keep the Data Protection Policy under review and to update it as required.

The meeting closed at 8.05 pm.

CHAIRMAN

DEVELOPMENT MANAGEMENT COMMITTEE

Meeting held on Wednesday, 4th December, 2019 at the Concorde Room, Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr B.A. Thomas (Chairman)

Cllr Mrs. D.B. Bedford
Cllr R.M. Cooper
Cllr A.H. Crawford
Cllr P.J. Cullum
Cllr C.P. Grattan
Cllr Mara Makunura
Cllr C.J. Stewart

Apologies for absence were submitted on behalf of Cllr P.I.C. Crerar, Cllr J.H. Marsh and Cllr P.F. Rust.

Non-Voting Member

Cllr Marina Munro (Planning and Economy Portfolio Holder) (ex officio)

37. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

38. **MINUTES**

The Minutes of the meeting held on 6th November, 2019 were approved and signed by the Chairman.

39. **PLANNING APPLICATIONS**

RESOLVED: That

(i) permission be given to the following applications, as set out in Appendix “A” attached hereto, subject to the conditions, restrictions and prohibitions (if any) mentioned therein:

*	19/00599/FULIA	(Farnborough International Exhibition and Conference Centre, ETPS Road, Farnborough);
	19/00690/TPOPP	(No. 105 Campbell Fields, Aldershot);

(ii) the applications dealt with by the Head of Economy, Planning and Strategic Housing, where necessary in consultation with the Chairman, in accordance with the Council's Scheme of Delegation, more particularly specified in Section "D" of the Head of Economy, Planning and Strategic Housing's Report No. PLN1958, be noted; and

(iii) the current position with regard to the following applications be noted pending consideration at a future meeting:

18/00367/OUTPP	(Former Police Station, Pinehurst Avenue, Farnborough);
19/00517/FULPP	(Units 2A and 3, Blackwater Shopping Park, 12 Farnborough Gate, Farnborough);

(iv) the receipt of a petition in respect of the following application be noted:

19/00432/PINS	(ESSO Fuel Pipeline);

* The Head of Economy, Planning and Strategic Housing's Report No. PLN1958 in respect of this application was amended at the meeting

40. ESSO PIPELINE PROJECT

The Head of Economy, Planning and Strategic Housing gave an oral update on the current position with regard to the application (our ref: 19/00432/PINS) submitted to the Planning Inspectorate for a Development Consent Order in respect of a Major Infrastructure Project to permit the renewal and partial realignment of an existing Southampton to London fuel pipeline which crossed Rushmoor Borough.

The Committee was advised that the issues affecting Rushmoor had been well aired, both by the Council and by residents. The Council had submitted initial comments on the proposals and dialogue with ESSO was continuing, with particular emphasis on the impact on Queen Elizabeth Park.

The Committee noted the update and asked the Head of Economy, Planning and Strategic Housing to liaise with the Communications team to seek to facilitate improved communications with residents on this project.

RESOLVED: That the report be noted and the Head of Economy, Planning and Strategic Housing be requested to progress the agreed action.

41. MEUDON HOUSE - PLANNING REF: 19/00337/FULPP

The Committee considered the Head of Economy, Planning and Strategic Housing's Report No. PLN1961, which recommended that planning permission be granted on the basis of a Section 106 legal agreement with Heads of Terms which differ from those set out in a resolution relating to the same application dated 18th September, 2019. Members were reminded that in September 2019 they had resolved to grant planning permission 19/00337/FULPP for the demolition of the existing building and the erection of 205 open market dwellings in the form of one substantial six storey apartment building (93 one-bedroom flats and 80 two-bedroom flats) and 32 three-bedroom townhouses. This resolution was subject to conditions and a s106 legal agreement which was to include an affordable housing re-test mechanism.

The Committee was advised that the applicants, Bellway Homes, had concerns regarding the late stage review mechanism in respect of affordable housing and had put forward three offers to the Council in lieu of this review. In considering these options, input had been sought from the Council's Housing Strategy and Enabling Manager, with the preferred option providing the certainty to deliver 20 units of affordable housing, of which 14 would be affordable rented and would address an immediate housing need in the Borough.

RESOLVED: That:

(i) subject to the completion of a satisfactory Planning Obligation under Section 106 of the Town and Country Planning Act 1990 to secure the measures set out in (but not restricted to) the Heads of Terms of the Agreement set out in Report No. PLN1961, the Head of Economy, Planning and Strategic Housing, in consultation with the Chairman, be authorised to grant planning permission.

(ii) in the event of failure to complete a satisfactory Section 106 planning obligation by 4th February, 2020, the Head of Economy, Planning and Strategic Housing, in consultation with the Chairman, be authorised to refuse planning permission on the grounds that the proposal fails to make appropriate provision for affordable housing and open space, nor mitigate its impact on the highway and the Thames Basin Heaths Special Protection Area, contrary to the relevant policies of the Council's Development Plan and associated supplementary planning guidance.

42. **ENFORCEMENT AND POSSIBLE UNAUTHORISED DEVELOPMENT - NO. 59 FIELD WAY, ALDERSHOT**

The Committee considered the Head of Economy, Planning and Strategic Housing's Report No. PLN1959 regarding unauthorised internal works carried out not in accordance with planning permission 14/00585/FUL, dated 3rd September, 2014, for the conversion of an existing garage to form a habitable room, erection of a single storey front extension, first floor side extension and part two and single storey rear extension.

The Committee was advised that the extension had been configured and was in use as a separate dwelling. Undertakings to remedy the breach of planning control given by the owner in June 2015, in response to a Planning Contravention Notice, had not been honoured. In addition, the Committee noted that the occupiers had recently attempted to deny access to Council officers to carry out inspections of the property.

RESOLVED: That the Committee note the decision by the Head of Economy, Planning and Strategic Housing to instruct the Corporate Manager – Legal Services to issue an Enforcement Notice in accordance with the Council's Scheme of Delegation, more particularly specified in the Head of Economy, Planning and Strategic Housing's Report No. PLN1959.

43. **APPEALS PROGRESS REPORT**

(1) **New Appeals**

Address	**Description**
No. 91 Cranmore Lane, Aldershot	Against the refusal of planning permission for the erection of a single-storey side extension and alterations to detached garage to form a store. It was noted that this appeal would be dealt with by means of the written procedure.
No. 182 Lower Farnham Road, Aldershot	Against the refusal of planning permission for the erection of a two-storey rear extension. It was noted that this appeal would be dealt with by means of the written procedure.

(2) **Appeal Decisions**

Application / Enforcement Case No.	**Description**	**Decision**
18/00251/FULPP	Against the Council's refusal of planning permission for the demolition of existing building and the erection of part 3, part 4 and part 5-storey building containing 23 flats (2 x studios, 13 x one bedroom and 8 x two bedroom) and two retail units, with associated bin and cycle storage at Willow House, No. 23 Grosvenor Road, Aldershot.	Dismissed
19/00213/FULPP	Against the Council's refusal of planning permission for the demolition of existing buildings and erection of a new building part 3 and part 4 storey with a mix of 11 dwellings with associated parking, access, cycle and bin provision at No. 206 Sycamore Road, Farnborough.	Dismissed
18/00493/TPOPP	Against the Council's refusal of consent to fell a preserved oak tree at the rear of Nos. 26 and 28 Randolph Drive, Farnborough	Dismissed

RESOLVED: That the Head of Economy, Planning and Strategic Housing's Report No. PLN1960 be noted.

The meeting closed at 7.50 pm.

CLLR B.A. THOMAS (CHAIRMAN)

Development Management Committee
4th December 2019

Appendix "A"

Application No. & Date Valid:	**19/00599/FULIA**	**20th August 2019**

Proposal: Erection of building for office use together with business and hospitality accommodation to be used in connection with the biennial Farnborough International Airshow at **Farnborough International Exhibition And Conference Centre ETPS Road Farnborough Hampshire**

Applicant: ADS Group Limited

Conditions:

1 The development hereby permitted shall be begun before the expiration of three years from the date of this permission.

Reason - As required by Section 91 of the Town and Country Planning Act 1990 as amended by Section 51 of the Planning and Compulsory Purchase Act 2004.

2 The permission hereby granted shall be carried out in accordance with the following approved drawings: Drawing numbers: Site Location Plan ADS Chalet 158901B2-TOR-XX-XX-DR-A-P001 B; Revised Building Sept 19 Site Plan 158901B2-TOR-XX-XX-DR-A-sk004; Revised Building Sept 19 Site Elevation/Section Plan 158901B2-TOR-XX-XX-DR-A-sk006; Proposed Site Plan ADS Chalet 158901B2-TOR-XX-XX-DR-A-P003 B; Proposed Roof Plan ADS Chalet 158901B2-TOR-XX-XX-DR-A-P004 B; Proposed Site Section ADS Chalet 158901B2-TOR-XX-XX-DR-A-P005 C; Ground Floor Plan ADS Chalet 158901B2-TOR-XX-XX-DR-A-P010 B; First Floor Plan ADS Chalet 158901B2-TOR-XX-XX-DR-A-P0011 B; Second Floor Plan ADS Chalet 158901B2-TOR-XX-XX-DR-A-P012 B; Longitudinal Section ADS Chalet 158901B2-TOR-XX-XX-DR-A-P021 C; Elevations 1 ADS Chalet 158901B2-TOR-XX-XX-DR-A-P030 C; Elevations 2 ADS Chalet 158901B2-TOR-XX-XX-DR-A-P031 C; Proposed 3D View ADS Chalet 158901B2-TOR-XX-XX-DR-A-P040 C, Habitat Creation, Management and Monitoring Strategy (Lindsay Carrington Ecological Services, November 2019),

Construction Environmental Management Plan Version 3 (ADS, November 2019).

Reason - To ensure the development is implemented in accordance with the permission granted.

3 The development shall be carried out strictly in accordance with the Construction Environmental Management Plan Version 3 (ADS, November 2019) hereby approved.

Reason - In the interests of protecting the Farnborough Airport SINC, the amenity of neighbouring occupiers and local environmental conditions.

4 The development shall be managed and maintained in accordance with the Habitat Creation, Management and Monitoring Strategy (Lindsay Carrington Ecological Services, November 2019) hereby approved.

Reason: to ensure the protection, maintenance and enhancement of the Farnborough Airport SINC.

5 The first and second floor accommodation within the structure hereby permitted shall be used for the duration of, and in connection with, the biennial Farnborough International Airshow and for no other purpose.

Reason - To ensure a satisfactory approach to the use and development of the site and its impact on the surrounding area.

Development Management Committee

Appendix “A”

Application No. & Date Valid:	**19/00690/TPOPP**	**27th September 2019**

Proposal: One Ash (T5 of TPO 289) crown lift to no more than 6 metres from ground level and remove stem overhanging boundary with 106 Campbell Fields at **105 Campbell Fields Aldershot Hampshire GU11 3TZ**

Applicant: Mr Peter Crerar

Conditions:

1 The works hereby approved shall be carried out and completed within 2 years of the date of this consent unless otherwise first agreed in writing by the Local Planning Authority, shall not exceed those specified in the application and shall be carried out in accordance with good practice as stated in "British Standard: Recommendations for Tree Work", BS3998.

Reason - In the interests of good practice and the health of the tree(s).

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DEVELOPMENT MANAGEMENT COMMITTEE

Meeting held on Wednesday, 15th January, 2020 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr B.A. Thomas (Chairman)
Cllr J.H. Marsh (Vice-Chairman)

Cllr Mrs. D.B. Bedford
Cllr R.M. Cooper
Cllr P.I.C. Crerar
Cllr P.J. Cullum
Cllr C.P. Grattan
Cllr P.F. Rust
Cllr C.J. Stewart

Apologies for absence were submitted on behalf of Cllr A.H. Crawford and Cllr Mara Makunura.

Cllr Gaynor Austin attended the meeting as a Standing Deputy.

Non-Voting Member

Apologies for absence were submitted on behalf of Cllr Marina Munro (Planning and Economy Portfolio Holder) (ex officio)

44. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

45. **MINUTES**

The Minutes of the meeting held on 4th December, 2019 were approved and signed by the Chairman.

46. **PLANNING APPLICATIONS**

RESOLVED: That

(i) permission be given to the following applications, as set out in Appendix “A” attached hereto, subject to the conditions, restrictions and prohibitions (if any) mentioned therein:

19/00832/FULPP	(No. 39 Cargate Avenue, Aldershot);
19/00839/RBCRG3	(No. 259 North Lane, Aldershot);
19/00871/COUPP	(The Rushmoor Community Stadium, Farnborough Town Football Club, Cherrywood Road, Farnborough)

(ii) the applications dealt with by the Head of Economy, Planning and Strategic Housing, where necessary in consultation with the Chairman, in accordance with the Council's Scheme of Delegation, more particularly specified in Section "D" of the Head of Economy, Planning and Strategic Housing's Report No. PLN2001, be noted; and

(iii) the current position with regard to the following applications be noted pending consideration at a future meeting:

18/00367/OUTPP	(Former Police Station, Pinehurst Avenue, Farnborough);
19/00673/FULPP	(Nos. 2-4 Mount Pleasant Road, Aldershot);

47. **ITEM WITHDRAWN**

The Committee noted that the following planning application had been withdrawn:

Application No.	Address
19/00517/FULPP	Units 2A and 3, Blackwater Shopping Park, 12 Farnborough Gate, Farnborough

48. **REPRESENTATIONS BY THE PUBLIC**

In accordance with the guidelines for public participation at meetings, the following representation was made to the Committee and was duly considered before a decision was reached.

Application No.	Address	Representation	In support of or against the application
19/00832/FULPP	No. 39 Cargate Avenue, Aldershot	Mr. A. Macdonald	Against

49. **ESSO PIPELINE PROJECT**

The Head of Economy, Planning and Strategic Housing gave an oral update on the current position with regard to the application (our ref: 19/00432/PINS) submitted to the Planning Inspectorate for a Development Consent Order in respect of a Major

Infrastructure Project to permit the renewal and partial realignment of an existing Southampton to London fuel pipeline which crossed Rushmoor Borough.

The Committee was advised that a meeting with ESSO had been held earlier that day which had been constructive, albeit that progress was slow.

The Committee noted that further consultation dates had been arranged by the Planning Inspectorate at the end of February, 2020.

RESOLVED: That the report be noted.

50. **APPEALS PROGRESS REPORT**

The Committee received the Head of Economy, Planning and Strategic Housing's Report No. PLN2003 concerning the following appeal decision:

Application / Enforcement Case No.	**Description**	**Decision**
19/00167/FULLPP	Against the refusal of planning permission for the erection of a two-storey rear extension at No. 182 Lower Farnham Road, Aldershot.	Dismissed

RESOLVED: That the Head of Economy, Planning and Strategic Housing's Report No. PLN2003 be noted.

The meeting closed at 8.00 pm.

CLLR B.A. THOMAS (CHAIRMAN)

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LICENSING, AUDIT AND GENERAL PURPOSES COMMITTEE

Meeting held on Monday, 27th January, 2020 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr S.J. Masterson (Chairman)
Cllr L. Jeffers (Vice-Chairman)

Cllr J.B. Canty
Cllr M.S. Choudhary
Cllr A.K. Chowdhury
Cllr Veronica Graham-Green
Cllr Christine Guinness
Cllr A.J. Halstead
Cllr Prabesh KC
Cllr P.F. Rust

Apologies for absence were submitted on behalf of Cllr Jacqui Vosper.

26. **APPOINTMENT OF CHAIRMAN**

RESOLVED: That Cllr S.J. Masterson be appointed as Chairman of the Licensing, Audit and General Purposes Committee for the remainder of the 2019/20 Municipal Year.

27. **APPOINTMENT OF VICE-CHAIRMAN**

RESOLVED: That Cllr L. Jeffers be appointed as Vice-Chairman of the Licensing, Audit and General Purposes Committee for the remainder of the 2019/20 Municipal Year.

28. **MINUTES**

The Minutes of the meeting held on 25th November, 2019 were approved and signed by the Chairman.

29. **SELECTION OF THE MAYOR AND DEPUTY MAYOR 2020/21**

The Head of Democracy, Strategy and Partnerships reported on the outcome of the selection process for the Mayor-Elect and the Deputy Mayor-Elect for 2020/21. The appropriate Members on the seniority list had been contacted and Cllr M.S. Choudhary was the next Member able to accept the nomination for Deputy Mayor. Through normal progression, Cllr P.F. Rust, currently Deputy Mayor, would progress to the position of Mayor for 2020/21.

The Committee **RECOMMENDED TO THE COUNCIL** that:

(i) Cllr P.F. Rust be appointed as Mayor-Elect for the 2020/21 Municipal Year; and

(ii) Cllr M.S. Choudhary be appointed as Deputy Mayor-Elect for the 2020/21 Municipal Year.

NOTE: Cllrs P.F. Rust and M.S. Choudhary declared prejudicial interests relating to the item and left the meeting during the discussion and voting thereon.

30. **STATEMENT OF ACCOUNTS 2018/19 - UPDATE**

The Committee received a verbal update report from the Executive Head of Finance on audit progress for the Council's Statement of Accounts for 2018/19 since the last meeting on 25th November, 2019. The Executive Head of Finance explained that productive discussions with the external auditors had taken place since the last Committee meeting and that most points that were due to be included in the proposed letter to the external auditors had been covered, so that the letter had not been sent.

The Committee was reminded that one of the main areas causing the delay to the audit opinion was in the specialised area of property valuation. It was the opinion of both the Executive Head of Finance and Andrew Brittain from Ernst & Young, External Auditors, that the auditor opinion would be available for consideration and approval at the following Committee meeting on 23rd March, 2020.

RESOLVED: The current position be noted.

31. **ANNUAL TREASURY MANAGEMENT STRATEGY AND NON-TREASURY INVESTMENT STRATEGY 2020/21**

The Committee considered the Executive Head of Finance's Report No. FIN2004, which set out the proposed Treasury Management Strategy and Annual Non-Treasury Investment Strategy for 2020/21, including the borrowing and investment strategies and the Minimum Revenue Provision Statement. The Executive Head of Finance apologised that the Report had only become available earlier that day and acknowledged that this did not give Committee Members sufficient time to read the document. It was pointed out that Councillors would have further opportunities to discuss the Report as it was also being submitted to Cabinet on 4th February and to Council on 20th February, 2020.

It was noted that the Chartered Institute of Public Finance and Accountancy had conducted reviews of the Prudential Code and the Treasury Management Code of Practice in 2017 and that the Ministry of Housing, Communities and Local Government had also issued revised guidance on Local Government Investment. The Treasury Management Strategy Statement for 2020/21 and the Non-Treasury Investment Strategy had been prepared in accordance with this guidance.

Arlingclose advice continued to indicate that the Council should diversify investment risk by spreading smaller amounts over an increasing number of counterparties wherever possible. The Council was progressively incurring further borrowing and Arlingclose had advised that, in the circumstances of some current investments reaching their maturity date, the Council should replace them with long-term pooled funds. This strategy allowed for the maintained level of principal sums to be invested during a period when borrowing was increasing.

The Committee noted that the Council had incurred prudential code borrowing in 2018/19 in the sum of £45.58m in relation to its capital expenditure. Further borrowing to support the financing of the Council's approved capital programme for the year 2019/20 would also be required. The Council would commence the 2020/21 financial year in a position where investment holdings continued to remain significant (although less than in previous financial years) but it would also be carrying significant accumulating debt. There would be an inevitable requirement to incur some further borrowing to service capital expenditure in future years.

It was advised that careful observation of the "gross debt against capital financing requirement" indicator would need to be undertaken progressively throughout the financial year. Where a material change to the proposed strategies during the year was required, a revised strategy would be presented to the Council before the change was implemented.

During discussion, it was noted that the current value of property investment held by the Council was £110.78m with the intention of a further £15m to be invested during 2020/21. In respect of the Minimum Revenue Provision (MRP) Statement it was noted that the Council was planning to make a voluntary MRP overpayment of £0.45m to reduce the revenue charges in later years. The Committee was advised that the potential impact of Brexit was covered in the Risk Register

RESOLVED: That the Cabinet be advised that this Committee supports:

(i) the Treasury Management Strategy and Annual Borrowing Strategy, as set out in Appendix A to the Executive Head of Finance's Report No. FIN2004;

(ii) the Annual Non-Treasury Investment Strategy, as set out in Appendix B; and

(iii) the Minimum Revenue Position Statement, as set out in Appendix C.

32. **INTERNAL AUDIT UPDATE**

The Committee considered the Audit Manager's Report No. AUD20/01 which gave an overview of the work completed to date by Internal Audit for Quarter 3 (including the work slipped from Quarter 2) and a schedule of work expected to be delivered in Quarter 4.

The Committee was advised that work on the Payment Card Industry Data Security Standard (PCI DSS) would start shortly and would not be deferred to 2020/21, whilst the audit of the performance management process would be deferred.

RESOLVED: That:

(i) the audit work carried out in Quarter 3 be noted; and

(ii) the updated, expected deliverables for Quarter 4 be endorsed.

33. **CONSULTATION ON PROPOSED TAXI SHARING ARRANGEMENTS FOR FARNBOROUGH INTERNATIONAL AIRSHOW 2020**

The Committee considered the Head of Operational Services' Report No. OS 2003, which outlined proposals for a taxi-sharing scheme to run between designated points for the duration of the trade days of Farnborough International Airshow 2020 (FIA20).

The Committee was informed that, following discussions with the taxi trade, requests from at least 10% of the taxi trade had been received for the Council to implement a taxi-sharing scheme for the duration of the trade days of the Airshow 2020 (20th – 24th July 2020) to be run on a similar basis to that operated during the 2018 Airshow, with an increase to the flat fare to £4.50 per person (previously £4.00), with a maximum of £18 for four passengers (previously £16).

It was noted that the proposed scheme had received provisional approval of Cabinet and was now out for public consultation until 1st March, 2020. Given its role and responsibilities in other areas of taxi licensing work, the views of the Committee were being sought on the proposed scheme with any comments or recommendations to be reported to the Portfolio Holder for Operational Services, to whom determination of the scheme has been delegated in conjunction with the Head of Operational Services.

It was noted that the procedure to be followed in making a taxi-sharing scheme was laid down in the Taxis (Schemes for Hire at Separate Fares) Regulations, 1986. These regulations required the authority to obtain the consent of the highway authority and/or the landowner in respect of any place that was not on the highway. The authority was also required to consult the local Chief Constable of Police and local County Council, together with local taxi owners and/or their representatives. It was also required to publish the proposed scheme and invite public representations and for such representations to be considered as may be appropriate before implementing its preferred arrangements.

The taxi trade had requested that a scheme should be established for return journeys between the official Airshow rank and Farnborough mainline station and the Report set out the proposed arrangements in respect of authorised places for taxi ranks, signs on vehicles and authorised places, exclusive and shared compellability, fares and marshalling.

Members were advised that the Highways Authority and those with relevant land interests had confirmed their approval of the proposals. However, to date, statutory consultees had not made any comments.

It was felt that a taxi-share scheme offered the opportunity for a 'win-win' situation for taxi drivers, proprietors and passengers alike. Such a scheme provided an opportunity to improve public transport options at reduced costs to the customer whilst permitting the taxi trade to benefit and widen its market at a time of peak demand. The proposed scheme was relatively simple and straightforward and generally built upon and complemented the traffic arrangements used to accommodate the Airshow.

RESOLVED: That the Portfolio Holder for Operational Services be advised of the Committee's support of the proposed taxi share scheme set out in the Head of Operational Services' Report No. OS 2003.

34. **CONSULTATION ON PROPOSED VARIATION TO THE SCHEME OF HACKNEY CARRIAGE FARES**

The Committee considered the Head of Operational Services' Report No. OS 2002, which outlined proposals to vary the current scheme of hackney carriage fares. The proposals had received provisional approval from the Cabinet and had been published for consultation with the last date for representations and comments being 27th January, 2020. Given the role and responsibilities of the Committee, its views were being sought on any proposed change to the scheme of fares. It was noted that, were there to be no representations or objections to the proposals, the proposed scheme would be introduced from 1st March, 2020. However, if there were significant objections to the proposals, these would have to be taken back to Cabinet for consideration.

In accordance with the guidelines for public participation at meetings, Mr Gary Marshall, Director of VGT, made a representation to the Committee, including the provision of an alternative proposal to vary the current scheme of hackney carriage fares, which was duly considered before a decision was reached.

The Committee noted Cabinet's ongoing concern that the current scheme of fares was complex and difficult to understand, questioning whether it best served public interests in its current form. The proposal under consideration was developed in consultation with the Portfolio Holder for Operational Services and the former Committee Chairman (former Cllr J.E. Woolley).

The Report set out the proposed variations which sought to simplify the scheme of fares by standardising the units used throughout (using units of a mile) and reducing the number of extra charges that could be applied. In recognition that the latter might reduce taxi driver takings, this proposal also sought to apply a reasonable increase in excess of the notional uplift of 3.4% and rounded up all fares to the nearest 10p.

During discussion, Members raised concerns on whether the proposed scheme would achieve the desired simplicity and ease of understanding to the public. In addition, taking account of the views expressed by Mr Marshall on behalf of the taxi trade, there were issues around deliverability and legality of the proposed variations.

RESOLVED: That the Chairman and the Environmental Health Manager (Licensing) be authorised to reflect on Members' comments and the views of the taxi trade and discuss these with the Portfolio Holder for Operational Services, for feedback to the Cabinet.

NOTE: Cllr M.S. Choudhary declared a prejudicial interest in this item in respect of his profession and, in accordance with the Members' Code of Conduct, left the meeting during the discussion and voting thereon.

35. **CONSTITUTION REVIEW**

The Committee considered the Head of Democracy, Strategy and Partnerships' Report No. DSP2001, which provided an update on the process and approach of the full review of the Council's Constitution, and set out a draft updated copy of the Standing Orders for the Regulation of Business.

It was noted that the Council had a responsibility to monitor its Constitution and ensure it was kept up to date. To this effect, updates were made on a regular basis, with those made in 2018 reflecting changes to the governance structure and the last full review carried out in 2013 reflecting the provisions contained in the Localism Act 2011, the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, and other general updates. However, since the Constitution was first prepared in 2001, no changes to the fundamental structure of the document had taken place and the review underway was to ensure that it reflected current working arrangements and supported the Council's aim to be a more agile and flexible organisation in the future through its transformation and modernisation programme.

The Committee was advised that a cross-party Constitution Review Group had met on a number of occasions during autumn/winter 2019 to consider key documents that formed part of the Constitution and the Group's comments and action notes formed part of the Report. It was noted that wider consultation had also been carried out with the Corporate Leadership Team and with a representative from the Local Government Association with expertise on Council Constitutions.

The Committee noted that it would be asked to consider the draft updated Constitution at its next meeting on 23rd March, 2020, for recommendation to the Council on 23rd April, 2020. In the interim a further meeting of the Constitution Review Group would also be held. The aim was for the updated Constitution to come into effect from the Annual Council Meeting on 26th May, 2020.

In discussion, one Member raised his concern about the proposed lowering of the quorum for Cabinet meetings from five to four voting Members, but it was explained that this was to make it consistent with the quorum for other meetings.

RESOLVED: That

(i) the update on the review of the Constitution and the Action Notes of the Constitution Member Review Group be noted; and

(ii) the draft Standing Orders for the Regulation of Business, recommended by the Constitution Member Review Group, be endorsed for recommendation to the Council.

The meeting closed at 9.00 pm.

CLLR S.J. MASTERSON (CHAIRMAN)

POLICY AND PROJECT ADVISORY BOARD

Meeting held on Wednesday, 22nd January, 2020 at the Council Offices, Farnborough at 7.00 pm.

Voting Members

Cllr J.B. Canty (Chairman)
Cllr Sophia Choudhary (Vice-Chairman)
Cllr P.I.C. Crerar (Vice-Chairman)

Cllr Gaynor Austin
Cllr P.J. Cullum
Cllr J.H. Marsh
Cllr Sophie Porter
Cllr M.J. Roberts
Cllr C.J. Stewart

Apologies for absence were submitted on behalf of Cllr Prabesh KC and Cllr T.W. Mitchell.

22. **APPOINTMENT**

NOTED: That Cllr J.H. Marsh had been been appointed as a member of the Policy and Project Advisory Board for the remainder of the 2019/20 municipal year.

23. **MINUTES**

The minutes of the meeting held on 20th November, 2019 were approved and signed by the Chairman.

24. **HEATHROW SOUTHERN RAIL LINK SUPPORT**

The Board received the Head of Economy, Planning and Strategic Housing's Report No. EPSH2006 which provided an update on the Southern Access to Heathrow Programme and the potential implications for Rushmoor and the wider M3 corridor. In November 2019 the Government published guidance on the Southern Access to Heathrow strategic objectives which explained that the purpose of the programme was to make getting to Heathrow Airport quicker and easier for millions of travellers across the south of England. The guidance identified that it expected interventions to be delivered in phases over a period of time which Government was not expecting to be completed prior to 2030.

There were four options being promoted as part of the Strategic Transport Links to Heathrow which were in the public domain, these were:

- Heathrow Southern Rail – opportunity for train services operating on a 30-minute frequency between Farnborough and Heathrow Airport.

- Hounslow to Heathrow New Rail Link – new rail line to Heathrow which would include a new station serving Bedfont
- Staines Light Rail – new transport link from Staines-upon-Thames to Heathrow as a stand-alone light rail
- Windsor Link Railway – rail link from Slough to London Waterloo via Windsor with a spur from Windsor to Staines which could provide potential for direct rail services between Farnborough and Aldershot

It was acknowledged that there was limited information on the detail of the proposals and there were a number of other options which were not currently in the public domain. With this in mind, a potential formal response to the Transport Secretary, which set out the Council's concerns, was put for to the Board for consideration. The response highlighted the Council's support for the Strategic Transport Links to Heathrow programme, the Council's support for direct connectivity from at least one of the Borough's mainline railways stations to Heathrow and the concern that Government would not expect proposals to be in place prior to 2030.

The Board discussed the report and proposed response. There was some concern regarding the lack of information in the public domain for the options, and therefore it was felt that the Council should not show support for any particular scheme in the response at this stage. It was also proposed that the response should include more emphasis on the environmental benefits. It was agreed that the Chair and Ian Mawer, Principal Planning Officer, would reflect on the comments made by the Board and submit them to the Leader of the Council and the Portfolio Holder for Planning and Economy to consider and agree the response. A copy of the response would be shared with the Board by email.

Action to be taken	**By Whom**	**When**
Discuss the Board's comments with the Leader of the Council and the Portfolio Holder in order for a response to be made by the Council to the Transport Secretary	Ian Mawer/ Jonathan Canty	14th February, 2020
A copy of the response be sent to Members of the Board	Ian Mawer	14th February, 2020

25. **DELIVERING REGENERATION**

The Board received a presentation on the approach to communicating the Regenerating Rushmoor Programme. Communication of the regeneration of Aldershot and Farnborough town centres was divided between the Council and Snapdragon Consultancy. Snapdragon Consultancy were employed by the Rushmoor Development Partnership to lead on communication and engagement for Union Street, the Civic Quarter and Parsons Barracks. A communications plan had been developed which covered all the key projects within the Regenerating Rushmoor Programme. The current focus had been on Aldershot which had included articles in Arena in September and December, two editions of the Aldershot Town Centre Newsletter and updates on the website. Other activities included email newsletters, artwork on hoardings, Small Business Saturday, Heart of Farnborough meetings and meetings were being arranged for residents on the Civic Quarter engagement.

There had been a variety of social media activities on regeneration since the start of December which included 12 posts on the Rushmoor Borough Council Facebook page and 13 posts on the Aldershot Town Centre page. There had also been a number or tweets from both the Rushmoor Borough Council and Aldershot Town Centre accounts. Instagram and LinkedIn were also being used and activity was increasing. Public engagement events had been held at Princes Hall and the Wellington Centre which had been well attended, views were being sought online up to 9th February.

Over the next six months there would continue to be a focus on Union Street and place branding for Aldershot. Initial engagement would be carried out on the Farnborough Civic Quarter with communications on the hoardings and demolition of Farnborough Community Centre. Work would continue to build on the current approach, which would include more videos and social media activity with greater online engagement including Facebook Live. There would also be non-digital engagement including regular town centre newsletters.

As the regeneration programme developed the communications plan would also evolve. The communications team would work alongside the regeneration team and with a number of other bodes to maintain effective communications with a wide range of stakeholders.

The Board discussed the communication plan and the methods of communication used. There were discussions regarding engagement with the Nepali community, identifying residents preferred method of engagement and increasing the number of email subscribers. The Board was advised that, as part of the ICE Programme, there would be a Customer Relationship Management System which would ask residents if they agreed to other Council services accessing their contact details which would increase the number on the email database. It was proposed that a peer review or sharing of best practice would be useful to see how communications was addressed in other areas. It was also agreed that a Frequently Asked Questions document be compiled to address questions that were raised on a regular basis.

The Board received information on how the Regenerating Rushmoor Programme could be part of the response to the climate emergency. There were a number of issues raised which would need to be considered as part of the regeneration programme in relation to climate change including sustainable design, heating and power, sustainable transport, green and open spaces and recycling/reuse of materials. It was proposed that a task and finish group was established to complement the Climate Change Working Group to review what was currently going on, look at options regarding ambition against cost and deliverability and to shape a policy approach to feed into the next stage of master planning. Nominations for representatives to sit on the Climate Emergency Regeneration Policy Task and Finish Group would be sought from political parties.

Action to be taken	By whom	When
Investigate options for a potential peer review or health check on communications work	Colin Eckworth/ Gill Chisnall	March 2020
Compile a FAQ document for residents to answer questions asked on a regularly basis	Karen Edwards/ Gill Chisnall	March 2020
Seek nominations for the Climate Emergency Regeneration Policy Task and Finish Group from political parties	Jill Shuttleworth/ Justine Davie	February 2020

26. **RUSHMOOR OPERATIONAL PARKING POLICY**

This item was withdrawn.

27. **INDEX OF MULTIPLE DEPRIVATION**

The Board received a summary of the Index of Multiple Deprivation (IMD) 2019 data which summarised the areas of multiple deprivation in Rushmoor. The Head of Democracy, Strategy and Partnerships presented the data and the Board were asked to consider the areas which the Council should focus to address the issues identified in the data.

In 2007 and 2010 the IMD data identified North Town, Mayfield and Heron Wood as areas in Rushmoor in the 20% most deprived in the country. The Council's Neighbourhood Renewal Strategy 2009-2014 aimed to ensure there were no areas in Rushmoor in this category by 2013. The Council's Community Development team led a partnership approach to neighbourhood improvement and cohesion work to address the deprivation issues. Despite the additional partnership work the 2019 IMD data identified parts of Cherrywood, Aldershot Park and Wellington ward as being in the 20% most deprived in the country.

The IMD 2019 data was released in September 2019, it was highlighted that the data was a snapshot and not particularly up to date in some categories; the data was mainly from 2015 and 2016 with some from the 2011 census. Rushmoor was a very diverse Borough with some areas in the least deprived category and some in the most deprived. Other sources of evidence had been examined to obtain a clearer picture of the data and gather more up to date figures where possible.

Additional data on income had been gathered from Citizens Advice, which was more up to date, and compared to the IMD data, showed there was some correlation in the results. Income deprivation affecting older people showed 12 areas in the 10% most deprived areas in England. It was highlighted that the number of adults receiving Pension Credit was part of the calculation and it was possible that a significant number of pension age Nepali residents who were not eligible for a state pension could be receiving Pension Credit. Other data sources examined related to employment, skills and training, education, health and disability, crime, barriers to housing and services and living environment.

In examining the data it was clear that there were complex issues affecting the data which needed further examination. Work would need to be carried out with partner organisations, particularly on health, education and crime issues, to gain a better understanding of the data and how to best address it. The assessment of the IMD data and supporting evidence would be completed and presented to partner organisations. The priorities would need to be considered and an action plan developed which would require support from the Council, partners and local communities.

The Board discussed the information received and agreed that more work was required to better understand the data. The Board was advised that a report on the crime data would be presented to the Overview and Scrutiny Committee which would be shared with Board members. It was suggested that a working group was set up to look at the data in further detail and provide an input into the development of the deprivation strategy and action plan. It was agreed that once the scoping work had been complete the working group could be established. Board members were asked to provide any additional input on the deprivation priorities by email to the Head of Democracy, Strategy and Partnerships.

Action to be taken	**By Whom**	**When**
Circulate the Overview and Scrutiny Committee report on crime data to Board members	Justine Davie	February 2020
Establish a working group as required to input into the preparation of the deprivation strategy and action plan once the scoping work had been complete	Andrew Colver	June 2020
Provide input on priorities for the Council arising from the IMD 2019 data to andrew.colver@rushmoor.gov.uk	All PPAB members	February 2020

28. **WORK PROGRAMME**

The Board **NOTED** the work programme. It was highlighted that the Hampshire County Council Library Service consultation would be discussed at the next Progress Group meeting.

The meeting closed at 9.35 pm.

CLLR J.B. CANTY (CHAIRMAN)
