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FAREHAM
BOROUGH COUNCIL

AGENDA FOR THE EXECUTIVE

Date:	Monday, 6 February 2023
Time:	6.00 pm
Venue:	Collingwood Room - Civic Offices

Executive Members:

Councillor S D T Woodward, Policy and Resources (Executive Leader)

Councillor I Bastable, Streetscene

Councillor Miss J Burton, Health & Public Protection

Councillor Mrs C L A Hockley, Housing

Councillor S D Martin, Planning and Development

Councillor Mrs S M Walker, Leisure and Community

1. **Apologies for Absence**

2. **Minutes** (Pages 5 - 8)

   To confirm as a correct record the minutes of the meeting of the Executive held on 09 January 2023.

3. **Executive Leader's Announcements**

4. **Declarations of Interest**

   To receive any declarations of interest from members in accordance with Standing Orders and the Council’s Code of Conduct.

5. **Petitions**

6. **Deputations**

   To receive any deputations, of which notice has been lodged.

7. **References from Other Committees**

   To receive any references from the committees or panels held.

Matters for Decision in Public

Note: Where an urgent item of business is raised in accordance with Part 3 of the Constitution, it will be considered with the relevant service decisions as appropriate.

8. **Planning and Development**

Non-Key Decision

(1) **The Levelling Up and Regeneration Bill - Planning Policy Consultation** (Pages 9 - 40)

A report by the Director of Planning and Regeneration.

9. **Policy and Resources**

Key Decision

(1) **Finance Strategy, Capital Programme, Revenue Budget & Council Tax 2023/24** (Pages 41 - 52)

A report by the Deputy Chief Executive Officer and Section 151 Officer.

(2) **Housing Revenue Account 2023/24** (Pages 53 - 64)

A report by the Deputy Chief Executive Officer.

(3) **Capital Programme & Capital Strategy 2023/24** (Pages 65 - 88)

A report by the Deputy Chief Executive Officer.

Non-Key Decision

(4) Treasury Management Strategy 2023/24 (Pages 89 - 112)
A report by the Deputy Chief Executive Officer.

P GRIMWOOD
Chief Executive Officer

www.fareham.gov.uk
26 January 2023

For further information please contact:
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Agenda Item 2

FAREHAM
BOROUGH COUNCIL

Minutes of the Executive

(to be confirmed at the next meeting)

Date: Monday, 9 January 2023

Venue: Collingwood Room - Civic Offices

Present:

S D T Woodward, Policy and Resources (Executive Leader)
I Bastable, Streetscene
Miss J Burton, Health & Public Protection
Mrs C L A Hockley, Housing
S D Martin, Planning and Development
Mrs S M Walker, Leisure and Community

Also in attendance:

1. APOLOGIES FOR ABSENCE

There were no apologies for absence given for this meeting.

2. MINUTES

RESOLVED that the minutes of the meeting of the Executive held on 06 December 2022 be confirmed and signed as a correct record.

3. EXECUTIVE LEADER'S ANNOUNCEMENTS

The Executive Leader announced his intention to make an amendment to the Executive Portfolio areas of responsibility by moving Cemeteries and Crematorium from Streetscene to Health and Public Protection. This change will not affect the operational delivery of the cemetery service which will still be carried out by the Streetscene department but allows the strategic overview to sit under Health and Public Protection which is a more appropriate portfolio.

4. DECLARATIONS OF INTEREST

The Executive Member for Health and Public Protection, Councillor Miss J Burton, declared a Disclosable Pecuniary Interest for item 9(2) – Fees and Charges as she is a community user of the facility at Daedalus.

As this interest relates specifically to fees and charges for Daedalus and recommendation (c) asks the Executive only to note the charges, Councillor Burton remained present for the rest of the item but left the room when recommendation (c) was considered and took no part in the discussion or decision for recommendation 9(2)(c).

5. PETITIONS

There were no petitions submitted at this meeting.

6. DEPUTATIONS

Deputations were received from Mr Gareth Jones in respect of items 9(1) Finance Strategy, Revenue Budget & Council Tax 2023/24, 9(2) Fees & Charges 2023/24 and 11(1) Relocation of Corporate Cabin, Solent Airport.

7. REFERENCES FROM OTHER COMMITTEES

There were no references from other Committees.

8. HOUSING

(1) Fareham Housing Development of Ophelia Court, Montefiore Drive, Park Gate

During the discussion on this item the Executive Member for Housing placed on record her thanks to the officers of Fareham Housing and the Finance teams who have delivered a mix of affordable and shared ownership homes across the Borough and aims to provide up to 345 homes over the coming years. All members of the Executive conveyed their thanks and admiration.

RESOLVED that the Executive agrees:

(a) the updated funding mechanisms, as outlined in the confidential Appendix A to the report, for the delivery of an affordable home ownership scheme at Ophelia Court; and

(b) that the award of contract and the appointment of building contractor(s) for Ophelia Court be delegated to the Deputy Chief Executive Officer, following consultation with the Executive Member for Housing.

9. POLICY AND RESOURCES

(1) Finance Strategy, Revenue Budget & Council Tax 2023/24

A deputation on this item was received from Mr Gareth Jones.

RESOLVED that the Executive:

Financial Forecasts (MTFS)

(a) approves the Medium-Term Finance Strategy for the period 2022/23 to 2026/27, as set out at Appendix C to the report;

(b) agrees to submit the updated Pay Policy, annexed to the Medium-Term Finance Strategy in Appendix C at Annex 2, to Full Council for approval;

Revenue Budgets

(c) approves the revised 2022/23 general fund revenue budget, amounting to £10,987,300, as set out in Appendix A and B to the report; and

(d) approves the base 2023/24 general fund revenue budget amounting to £11,897,100, as set out in Appendices A and B to the report

(2) Fees & Charges 2023/24

Councillor Miss J Burton declared a Disclosable Pecuniary Interest for this item as she is a community user of the facility at Daedalus. Councillor Burton left the room, taking no part in the discussion and decision relating to recommendation (c) (see minute 4 above).

A deputation on this item was received from Mr Gareth Jones.

RESOLVED that the Executive

(a) approves the fees and charges for 2023/24, as set out at Appendix A to the report;

(b) notes the fees and charges that will be reviewed by the Licensing and Regulatory Affairs and the Planning Committees;

(c) notes the Solent Airport Daedalus charges at Appendix B to the report;

(d) approves the increase for the Trade Waste fees and charges as set out at the confidential Appendix C to the report;

(e) gives delegated authority to the Head of Streetscene to agree concessions to the Trade Waste charges at Appendix C to win business that will be of benefit to the Council; and

(f) notes the other fees and charges at Appendix C.

10. EXCLUSION OF PUBLIC AND PRESS

RESOLVED that in accordance with the Local Government Act 1974, the Public & Press be excluded from the remainder of the meeting, as the Executive considers that it is not in the public interest to consider the matters in public on the grounds that they will involve the disclosure of exempt information, as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act.

11. POLICY & RESOURCES

(1) Relocation of Corporate Cabin, Solent Airport

A deputation was received on this item from Mr Gareth Jones.

RESOLVED that the Executive agrees the recommendations as set out in the confidential report.

(The meeting started at 6.00 pm
and ended at 6.27 pm).

FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
06 February 2023

Portfolio:	Planning and Development
Subject:	**The Levelling Up and Regeneration Bill – Planning Policy Consultation**
Report of:	Director of Planning and Regeneration
Corporate Priorities:	Providing Housing Choices Protect and Enhance the Environment Strong, Safe, Inclusive and Healthy Communities Maintain and Extend Prosperity

Purpose:
To provide the Executive with an overview of the proposals contained within the Government's Levelling Up and Regeneration Bill consultation, and to seek approval for the submission of the consultation response, at appendix 1.

Executive summary:
The Government has launched a consultation on planning policy reforms entitled 'Levelling-up and Regeneration Bill: reforms to national planning policy'. The consultation ranges from discussing proposals that will be brought in as part of the Bill, or subsequent secondary legislation, to changes that the Government hope to bring forward through amendments to the National Planning Policy Framework (NPPF) this spring. The Government further commits to a 'wider review' of the NPPF later this year. Therefore, the consultation contains three sets of proposals to reform the planning agenda, with the most sweeping of changes to the plan-making system being introduced in 2024 onwards.

The consultation closes on 2 March 2023 and this report considers the impact of the changes from the perspective of Fareham in its South Hampshire context.

Recommendation:
It is recommended that the Executive;

(a) considers the content of the report and approves the suggested approach to the Council's response; and

(b) delegates authority for the final consultation response to the Director of Planning and Regeneration, following consultation with the Executive Member for Planning and Development.

Reason:
To respond to the Government's consultation on planning policy reform, expressing the views of the Council.

Cost of proposals:
There are no direct financial implications related to responding to this consultation

Appendices: **A: Draft response to the consultation**

Background papers: **None**

Reference papers:

Consultation document https://www.gov.uk/government/consultations/levelling-up-and-regeneration-bill-reforms-to-national-planning-policy/levelling-up-and-regeneration-bill-reforms-to-national-planning-policy

Proposed new NPPF
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1126647/NPPF_July_2021_-_showing_proposed_changes.pdf

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	06 February 2023
Subject:	The Levelling Up and Regeneration Bill – Planning Policy Consultation
Briefing by:	Director of Planning and Regeneration
Portfolio:	Planning and Development

INTRODUCTION

1. The Government opened a consultation on planning reform on 22nd December 2022. It is a wide-ranging consultation on proposals both for immediate implementation in a revised National Planning Policy Framework (NPPF) which is presented alongside the consultation document as a tracked change version of the current NPPF. The consultation also includes proposals linked to a wider review of national planning policy scheduled for later in 2023, and proposals which will come through the Levelling Up and Regeneration Bill in 2024.

2. The suite of proposals includes the following;

- The calculation of housing need and the application of local constraints and character in attempting to meet that need,
- Changing the circumstances in which the five-year housing land supply requirement needs to be demonstrated,
- Addressing issues relating to housing delivery and land supply tests as they relate to local authority performance,
- Increasing the accountability of developers and data regarding their performance on housing delivery,
- Promoting more beautiful homes, including through ‘gentle densification’,
- Safeguarding existing biodiversity on sites proposed for biodiversity net gain,
- Making sure that food security considerations are factored into planning decisions that affect high quality farmland,
- Seeking views on how planning policy could address climate adaptation, alongside ongoing work on flood risk assessments and exploring a form of carbon assessment for development,

- Enabling new methods for demonstrating local support for onshore wind development,
- Outlining the programme of transition from the current method of Local Plan preparation to the new approach following the enactment of the Levelling Up and Regeneration Bill
- Outlining the approach to preparing National Development Management Policies.

3. The consultation closes on 2 March 2023 and the Government have suggested that they will respond to the consultation in the spring, publishing an updated NPPF as part of that response.

FAREHAM'S CURRENT PLANNING STRATEGY CONTEXT

4. Members will be aware that the Council's emerging Local Plan 2037 is currently at examination stage. This process began in September 2021 and whilst the hearings concluded in April 2022, the Inspector has since requested two further consultations, the most recent of which concluded in December 2022. This latest consultation was on a series of modifications to the plan which the Inspector considers necessary in order for her to conclude that the plan is sound, with those modifications. The Inspector has received the thirty-eight responses that were received to that consultation, alongside the Council's views on the consultation responses. It is very much hoped that the examination process is near to the end and will be officially completed when the Council receives the Inspector's report.

5. Importantly for the Council's decision making is the consideration of when planning decisions need to be made in the context of the presumption of favour of sustainable development, often called the 'tilted balance'. There are two routes to this situation; one because the Council cannot demonstrate a five-year housing land supply, but the other is when the Council's results for the Housing Delivery Test falls below a certain level.

6. On the first point, the Council has not been able to demonstrate a five-year housing land supply since late 2017. However, this situation has improved recently, due to the improved position on planning permissions and a report to the Planning Committee on 25th January 2023 confirmed that the Council's five-year housing land supply position is now 5.49 years, based on our current housing requirement of 541 dwellings per annum and applying a 20% buffer to the calculation (see paragraph 7 for the explanation). This is a situation that is anticipated to continue as the Council adopts the Local Plan, as one of the purposes of Local Plans is to confirm a five-year housing land supply going forward. Therefore, the application of the tilted balance due to our inability to demonstrate a five-year housing land supply should be less of a consideration for the Council and its Planning Committee in future years.

7. On the second point, the Council must also apply the presumption of sustainable development if the results from the Housing Delivery Test (HDT) fall below 75%. The HDT measures the number of homes delivered against the housing requirement over the previous three years. Members will recall that the HDT was introduced in 2018 to measure the number of homes required over the previous three financial years against the number of homes actually built, or delivered. Councils have often complained that this is an unfair test given the Councils' often limited role in actually building houses, and particularly as there are different sanctions applied depending on how poor the results are. If results are below 95% of the requirement, then the Council must produce an action plan setting out how it plans to rectify the situation. If results are below 85% of the requirement, the Council must apply an additional 20% 'buffer' to its five-year

housing land supply requirement (which essentially means that permissions should be granted for an additional 20% of homes above the required number in order to avoid the situation where decisions on future planning decisions needs to be taken in accordance with the presumption in favour of sustainable development, the aforementioned 'tilted balance'. If results are below 75% of the requirement, then the council must apply the tilted balance in any case. This is the position that the Council is currently in (see paragraph 7).

8. The latest results covered the period April 2018-March 2021, which were published in early 2022, and showed that 62% of the number of homes required where built. Therefore, the Council must both apply the tilted balance to its planning decisions and add a 20% to the forward-looking five-year housing land supply calculation.

9. The HDT results for the period 2019-2022 would normally be expected to be published in early 2023, but have not yet been published. The Local Plan has been prepared in full acknowledgement of the challenge that poor results in the upcoming HDT 2019-2022 might bring the Council, however, the fact is that under the current terms of the HDT, even with a newly adopted Local Plan, the Council will need to apply the presumption in favour of sustainable development until early 2024, assuming that housing delivery in the Borough precedes as currently projected.

TIMING OF CONSULTATION IN RELATION TO FAREHAM'S EMERGING LOCAL PLAN 2037

10. Officers have undertaken a full review of the consultation in relation to the progression of the Local Plan and consider that none of the proposed changes will impact the conclusion of the examination process of the emerging Local Plan for Fareham. This is because there is clarity that these changes will not take effect until Spring 2023. The Government will need time to review the responses before pressing ahead with the changes and so this is likely to be April or May given that the consultation closes in early March. It is anticipated that the Inspector's report on the Local Plan will be received in advance of this, which will conclude the examination.

11. The narrative within the consultation is strongly supportive of Local Plans and suggests that only 40% of Councils have up to date plans. Many of the proposals are predicated on encouraging the delivery of Local Plans.

CONSULTATION PROPOSALS

12. As referenced above, the consultation includes proposals to be brought forward on at least three different timescales. This report attempts to present them in expected chronological order with particular reference to those with the potential to impact Fareham's plan-making and decision-taking functions most profoundly

<u>Changes - Spring 2023</u>

Housing need

13. The consultation has made it clear that should Fareham's housing need change, this will not happen until 2024. This is because the Government has said they will 'review the implications on the standard method of new household projections data based on the 2021 census, which is due to be published in 2024'. Members will be aware that the starting point for calculating housing need is the 2014-based household projections which are now eight years old. It is considered likely that more up to date data on household projections would indicate a lower level of growth, as we know from

published 2021 census data that the number of homes in Fareham grew by 3.9% between 2011-2021 instead of the 8.9% predicted in that 2014-based data set. However, the Government remains committed to delivering 300,000 homes a year in the next couple of years, so what is not known is how any future review of the 2021 census data on household projections would feed into the formula for calculating housing need. In any case, there remains stability in the Government's standard methodology at the present time, for the purposes of moving towards adopting the emerging Local Plan 2037.

'Alternative method' for calculating housing need in limited circumstances

14. There has been widespread dislike of the standard methodology for calculating housing need, particularly as the data used on household projections becomes increasingly out of date. The standard method has, strictly speaking, only ever been a starting point and the Government's current policy is that Councils can put forward a different method if there are 'exceptional circumstances'. There has not been guidance on what these circumstances might be, and it is one of the proposals within this consultation that the Government do set out in planning guidance circumstances where an alternative method might be acceptable.

15. The two examples given are an island with a large proportion of elderly residents, which Officers have taken to apply to the Isle of Wight, or a town or city with a large student population. The draft response includes reference to how Fareham borough also has a higher than average percentage of elderly residents and other characteristics which could be considered to be exceptional, for example its geography 'sandwiched' between the coast and a national park to the north with large urban areas, including large student populations to either side of the borough.

16. In addition, the draft response makes reference to the number of environmental mitigation measures that are required to bring development forward in the Borough. These measures are required to comply with national legislation and therefore should be seen as a significant challenge to addressing housing need in future Local Plans.

17. It is hoped that these characteristics may then be supported by the Government to allow us, in future plan-making cycles, to use an alternative method for calculating housing need. It is however likely that many authorities will be doing the same, and the Government has reiterated its commitment to delivering 300,000 homes a year by the mid 2020s. However, the strengthened clarity that the standard method is only the starting point is to be welcomed, provided that there is an awareness that the requirement proposed in any future Local Plan may be higher or lower than that.

Constraints to meeting housing need

18. In addition to reconsidering the circumstances under which an alternative approach to calculating housing need might be appropriate, the Government has introduced some changes relating to the ability of Council's to meet their need. One of these is particularly relevant to the borough of Fareham. The Government has said that 'if housing need can be met only by building at densities which would be significantly out-of-character with the existing area, this may be an adverse impact which could outweigh the benefits of meeting need in full'. This could be an argument that could apply to future Local Plan cycles as the capacity of the borough diminishes and the availability of suitable sites reduces. It might be the case that in order to meet the need, the number of homes built within a particular size of area is too great in design terms (typically because the type of development, e.g. flatted blocks, are not in keeping with the

character of the existing settlement, or because the height of any building would be out of character). This situation is possible as future Local Plans look to timelines of 2040 and beyond. In those cases, this proposal would provide a justification for not meeting housing needs in full.

19. The Government wishes each authority to develop Local Design Guides or Codes in order to respond to national design guidance and ensure that place-making is consistent with a high-quality standard of design. It will be important for this Council to move ahead with setting a borough-wide design code if it wants to take advantage of this design-led argument in the future. A platform for a Borough-wide code is set out in the strategic design policies of the emerging Local Plan, and design codes associated with particular developments, such as Welborne is becoming more common.

20. Members will be interested to note that the ability for Local Authorities to meet their stated housing requirement has been a regular discussion topic at a Partnership for South Hampshire (PfSH) level. At its December 2022 meeting, PfSH's Joint Committee agreed to prioritise work to understand the sub-regions' capacity for growth in light of the significant constraints, environmental and otherwise, that present challenges to finding sufficient land for housing to meet the current top-down housing targets. The outcome of this work, which is estimated to be the focus of the work over the next three-six months, is that PfSH will collectively be in a stronger position to understand the true capacity of the sub-region and to move forward with a Joint Strategy on housing distribution in the context of potential alterations to calculating housing need from 2024 onwards.

Changes to five-year housing land supply

21. As referenced above, there is a tracked change version of the NPPF that, subject to responses on the consultation, the Government will introduce this spring. One of the changes within that is to remove the need to demonstrate a five-year housing land supply if the Council has a newly adopted plan. There is a point of clarity that the draft response seeks confirmation of, in relation to the precise wording of the redrafted text which states '*as long as the housing requirement set out in its strategic policies is less than 5 years old*' as it is not written as clearly as '*within five years of adopting a Local Plan*' which would be a helpful clarification if that is the Government's intention. However, the understanding is that for a number of years following adoption of the Council's emerging Local Plan, the Council would not be required to justify its five-year housing land position. This is definitely a positive and logical step as part of the purpose for preparing a Local Plan is to secure a five-year supply. The consequence of this is that the tilted balance could not apply to the determination of planning applications for a number of years because of a lack of housing land supply (however, it could still apply because of poor results in the Housing Delivery Test).

22. Therefore, should the Council adopt the emerging Local Plan 2037 before the new NPPF is published in the 'spring', we are unlikely to have to produce five-year housing land supply statements for up to five years and one of the reasons why the Council might need to apply the tilted balance in favour of sustainable development would be disapplied in the early years of the new plan. Should the NPPF be published before the Council has adopted its new Local Plan, the Council would need to demonstrate a four-year housing land supply for a period of two years whilst we moved to adopt the plan. Either scenario is beneficial to the Council, but there is a clear advantage to adopting the plan before the new NPPF is published.

23. The consultation also proposes to remove the need to apply a buffer to the five-year

housing land supply calculation. Members will recall that in normal circumstances of 5% buffer is required to aid 'choice and flexibility in the market', however where HDT results fall below 85%, this is increased to 20%. This is a positive proposal and it is supported in the draft consultation response.

Changes to the Housing Delivery Test

24. Another proposal due to come forward in the Spring 2023 updated NPPF is the inclusion of a permissions-based test in the Housing Delivery Test (HDT). As set out in paragraph 7, this test looks at the past three years' housing delivery against the housing requirement, and there are three penalties should delivery fall below 95%, 85% or 75% The latest results have resulted in the Council needing to apply a 20% buffer to its five-year housing land calculation and apply the tilted balance to its decision making.

25. The inclusion of an permissions-based test should be welcomed, as it recognises that the focus of a Councils' role in delivering homes is the granting of permissions. The purpose of the permissions-based test is that in situations where delivery falls below 75%, the requirement to consider future applications with the presumption in favour of permission could be 'switched off' if the Council can demonstrate that it has permitted a sufficient number of homes, and therefore that the failure to deliver rests outside of the Council's control.

26. However, in order to make sure that the number of permissions will generate the required number of homes being delivered, the Government's proposals are to include a buffer on top of this part of the test. This buffer relates to the number of permissions that are never actually built, termed 'lapsed permissions'. Their evidence suggests that on average the number of permissions that do not translate into homes built on the ground is 15%, and so the proposal is that in order to be able to take advantage of this permissions-based test, a Council must demonstrate that it has permitted sufficient homes for its requirement and an additional 15% of homes. The draft response questions whether this buffer is too high and suggest that locally determined 'lapse rates' should be used to ensure that the number of permissions granted is not excessive. For example, the number of permissions in Fareham borough that do not generate houses being built, ranges between 5 to 10%, therefore we should argue that if a buffer is required on this permissions-based test it should be smaller than 15%.

27. The draft response also makes the point that this Council is likely to be in the odd position of having a recently adopted Local Plan, assuming the Fareham Local Plan 2037 is adopted at a future Council meeting, but will need to apply the presumption in favour of sustainable development due to poor results in the HDT. This is contrary to the plan-led system and therefore, the draft response calls for the abolition of the HDT, at least in situations where the Council has an up-to-date plan.

Design and energy proposals

28. The changes to the NPPF proposed for spring 2023 include greater reference to beauty in the chapter on design, and also to the importance of food production in relation to the value of farmland. There are also changes to the NPPF to support onshore wind development and greater energy efficiency of buildings.

Wider Review – Late 2023

29. This consultation sets out the scope of a wider review of national planning policy to be undertaken later in 2023. There is little detail on these proposals but it is understood

that there will be further consultation later this year.

30. Many of the proposals relate to the potential to introduce measures to encourage developers to build, including publishing data on poor delivery and also measures to support smaller builders who have a contribution to the delivery of homes.

National Development Management Policies

31. This consultation references the introduction of a suite of National Development Management Policies (NDMPs) which will be implemented following the passing of the Levelling Up and Regeneration Bill (LURB) later this year. There is limited idea of the scope of these national policies but there is a commitment to consulting on the detail of them before their introduction. The consultation makes it clear that these policies would be separate to the NPPF with the same weight applied to them as to the development plan, i.e. the Local Plan. This is important because to date government guidance has been of a lesser status in the determination of planning applications than policies within the Local Plan, but the intention is to streamline the Local Plan production process and to avoid repetition of policies that are largely consistent across the country.

Biodiversity and Climate Change

32. Other proposals planned as part of the future wider review relate to the potential for further protection for irreplaceable habitats, such as ancient woodland, and the intention to work with Defra to avoid the degradation of sites before planning applications are submitted, which will be important in terms of calculations of biodiversity net gain. Other proposals that may come as part of a wider review include ways of the planning system making a greater contribution to climate change mitigation and adaptation including the potential for quantifiable carbon reduction guidance for statutory Local Transport Plans.

Ending the Duty to Co-operate

33. Another proposal to follow in the wider review which has been mentioned before in earlier government consultations is the abolition of the duty to cooperate. However, this duty is to be replaced by alignment policy and further consultation will be undertaken to understand what that might mean in practise. This is likely to have implications for the work of the Partnership for South Hampshire, particularly because the consultation is clear that any unmet need arising from authorities which have to apply an ‘urban uplift’ to their housing needs targets, which includes Southampton, should not be exported to neighbouring planning authorities, unless a voluntary agreement is reached.

Revised Planning System - 2024

34. The final timescale for introducing planning reform is via a revised planning system which is predicted to be in place in late 2024, following the enactment of the LURB and potentially secondary legislation.

Streamlining Local Plans

35. This new planning system largely relates to a requirement to deliver local plans more quickly. Local planning authorities would be required to start a review by five years after the date of adoption of their latest local plan and would have no more than 30 months to adopt the next one. For Fareham, this is likely to mean that we would have to start a review of our emerging Local Plan in the first half of 2028 and adopt it by the end of 2030. The consultation document sets out complicated transitional arrangements for the introduction of a new plan-making system. However, if this Council moves forward with

adopting our emerging Local Plan this spring, these would not affect us.

Taking account of developer's past 'behaviour'

36. Another proposal referenced with the same timescale is the potential to take into account past 'irresponsible behaviour' by planning applicants in the determination of future applications and the Government is seeking views on that proposal. Also of note for this Council, is that Supplementary Planning Documents (SPDs), of which the Council has several including on topics of design, parking and affordable housing would need to be replaced by Supplementary Plans which would carry the same weight as Local Plans, and that the existing SPDs would cease to have effect at an as yet undefined point in time.

SUMMARY AND NEXT STEPS

37. This consultation is far reaching and sets out policies in relation to housing need, housing supply, design, protecting the environment and tackling climate change, knew national development management policies and a future plan making system, all within the context of enabling levelling up and regeneration. This report has attempted to bring to members attention those proposals that are most significant for the borough of Fareham, and tried to distinguish between those proposals, if any that will impact the final stages of plan making for the emerging local plan 2037, against proposals that will come in spring of this year come out later this year and even into next year. Many of the proposals within the government consultation are not detailed and will be subject to further consultation, which are likely to be the subject of further reports to this executive.

38. The draft consultation response is provided as appendix 1 for Members' consideration. Comments are invited on that draft, in order for the Council to submit its response before the closing date of 2 March 2023.

Enquiries:

For further information on this report please contact Gayle Wootton (01329 824328).

Appendix A : Draft FBC response to the LURB consultation

1. **Do you agree that local planning authorities should not have to continually demonstrate a deliverable 5-year housing land supply (5YHLS) as long as the housing requirement set out in its strategic policies is less than 5 years old?**

The Council agrees that local planning authorities should not have to continually demonstrate a deliverable 5YHLS where their housing requirement is less than 5 years old.

However, it considers that more clarity should be provided on what is meant by 'the housing requirement as set out in strategic policies is less than five years old' which is wording both quoted in the consultation and in the revised wording of footnote 9 in the tracked change NPPF.

There are at least two potential starting points for the lapse of five years. The first is upon adoption of the plan containing the strategic policies. This would be the most sensible option as the housing requirement may change throughout the examination process, which has been the case of the stepped requirement in Fareham's emerging Local Plan. Alternatively, the five years could begin from the time the plan is submitted for examination, upon which the need figure derived through the standard methodology is fixed for two years. In Fareham's case, the difference between these two options is approximately eighteen months (submission in September 2021 to predicted adoption in Spring 2023) and therefore could make a considerable difference to the interpretation of revised wording to footnote 7 in the NPPF.

Therefore, the Council considers that this is imperative to clarify for all future interpretations of the tilted balance. There are many other circumstances where the NPPF and PPG refer to a time period in relation to adoption of the plan and it is not clear why this footnote needs to be any different.

2. **Do you agree that buffers should not be required as part of 5YHLS calculations (this includes the 20% buffer as applied by the Housing Delivery Test)?**

The Council agrees that buffers should not form part of the 5YHLS calculation as it leads to poor planning decisions being made. As is evident in many locations in the country, where a 5YHLS cannot be demonstrated due to the application of an arbitrary buffer, hostile planning applications on unsustainable sites can be submitted and can gain permission, particularly on appeal. These decisions lead to poor outcomes for the existing and future communities.

3. **Should an oversupply of homes early in a plan period be taken into consideration when calculating a 5YHLS later on or is there an alternative approach that is preferable?**

The Council considers that oversupply early in the plan period should be taken into account when calculating a 5YHLS, however more clarity should be provided on what form of oversupply would be measured.

The Council believes any oversupply would be based on completions because permissions would already be counted as outstanding permissions in any 5YHLS calculation, but this should be made clear in guidance. In addition, clarity of how many years constitutes 'historic' in relation to oversupply should be provided.

4. **What should any planning guidance dealing with oversupply and undersupply say?**

The Council supports the proposal to enable oversupply to be taken account of in 5YHLS calculations and considers that a consistent approach to this across authorities would be beneficial. Guidance would need to be clear in terms of what can be taken into account and from what base date.

5. **Do you have any views about the potential changes to paragraph 14 of the existing Framework and increasing the protection given to neighbourhood plans?**

The Council supports the proposal to protect neighbourhood plans for five years, bringing the length of time their policies are in-date in line with Local Plans. However, it is concerned that removing the tests around housing land supply and the Housing Delivery Test for Neighbourhood Plan areas would mean that areas without a neighbourhood plan could be more at risk of speculative development. Fareham Borough has no designated neighbourhood plan areas and is unparished. Therefore its residents are potentially at a disadvantage due to the absence of neighbourhood plans if they cannot also benefit from the removal of the HDT and 5YHLS even in circumstances where the Local Plan is more than five years old.

6. **Do you agree that the opening chapters of the Framework should be revised to be clearer about the importance of planning for the homes and other development our communities need?**

The Council agrees the NPPF could be clearer about the importance of planning for the homes and other development our communities need such as the right infrastructure. Having the right infrastructure provision in place is vital to achieving sustainable well-planned development. A further change that this Council would like to see is that supporting infrastructure should also be highlighted in the amendments made to paragraph 1.

The Council welcomes the emphasis on up-to-date plans being the priority to ensure sustainable development. This reinforces the plan-led system.

7. **What are your views on the implications these changes may have on plan-making and housing supply?**

The Council considers that there should be a commitment to review the standard methodology to take account of more up to date data and that this change should happen swiftly.

The 2014-based projections are considerably out of date. 2021 census data shows that the number of households has increased by 3.9% in the years between 2011 and 2021 compared to the 8.5% expected in the 2014-based projections which means that the Council has had to plan for a far greater number of homes than were actually needed.

Therefore, it is imperative that the methodology in amended so that authorities are only required to plan for the homes that are actually needed. Local Planning Authorities in many parts of the country are facing increasing pressure to use more up-to-date data in determining the level of housing that should be planned for and yet the system has not been set up to allow Councils to easily deviate from the 2014-based projections. Exceptional circumstances is the test applied via the Planning Practice Guidance which is a very high bar, when in reality the projections are wholly out of date and more recent data has been available.

8. **Do you agree that policy and guidance should be clearer on what may constitute an exceptional circumstance for the use of an alternative approach for assessing local housing needs? Are there other issues we should consider alongside those set out above?**

The Council agrees that there should be clarity on what may constitute exceptional circumstances for the use of an alternative approach for assessing local housing needs. It welcomes the two examples but suggests that there may be more cases where an alternative method is required.

The Council considers that there are several parts along the south coast that also have a high proportion of elderly residents and therefore it is not just islands, such as the Isle of Wight, that have a high percentage of elderly residents as currently proposed. According to the 2021 Census, on average, 18.6% of the population of England is aged 65 or over, however, this figure is 24.5% for Fareham Borough and in some areas, such as Hill Head and Stubbington, where over 32% of the population is aged 65 and over. These figures are higher than the average of 29.2% on the Isle of Wight and therefore, as a Borough with a comparably aging population, the Council should also be able to use this as a reason to consider how the need is calculated.

Moreover, the Solent subregion in South Hampshire in which Fareham is located, faces unique geographical constraints which the Council feels should be included as exceptional circumstances which justify the use of an alternative method to calculating local housing need. Firstly, the Borough is constrained by the presence of the coast on its southern border. Whilst this in itself is not unique, there are a number of international and national wildlife designations present along this coastline (SPA, SAC and Ramsar) and a significant proportion of its hinterland is also designated due to it being important for maintaining the integrity of the coastal protected sites.

In addition to the coastline, the Solent subregion lies adjacent to two National Parks, one of which, the South Downs, runs almost along the entire length of the subregion, and the New Forest in the west of the subregion is also designated as a SPA, SAC and Ramsar Site due to its international importance for wildlife.

This highlights how important the Solent region is to internationally important wildlife and the level of environmental constraints there are to achieving sustainable development in the Borough and wider sub-region alongside meeting targets within the Environment Act. As a collective group of authorities, the Partnership for South Hampshire has been trying to highlight to various Government departments the specific challenges of meeting local housing need sustainably in the context of the environmental issues and constraints present in the subregion.

Many of these environmental constraints are as a direct result of the presence of protected sites (SPAs and SACs) in and adjacent to the Borough, and are seen as a strength and quality of the Solent sub-region. They are constraints derived from the need to comply with national legislation, rather than a local policy issue, and the extent of the land mass required to mitigate any impacts is often overlooked. Therefore, it is our view that the ability to meet housing need in a location where any plan needs to ensure no adverse impact on these sites should be considered through an alternative approach to assessing housing needs.

Given the above, the Council therefore considers that these unique geographical constraints in the Solent subregion should be included as exceptional circumstances to justify the use of an alternative method to calculating local housing need.

9. **Do you agree that national policy should make clear that Green Belt does not need to be reviewed or altered when making plans, that building at densities significantly out of character with an existing area may be considered in assessing whether housing need can be met, and that past over-supply may be taken into account?**

The Council agrees that national policy should make it clear that building at densities significantly out of character with an existing area should be considered in assessing whether housing need can be met. It is considered that these should be determined through Local Design Codes set by the local planning authority.

The Council is supportive of proposals to allow past over-supply to be considered as well. However, as per the Council's responses to questions 3 and 4, guidance will need to be clear as to what exactly can be taken into account when considering past over delivery.

10. **Do you have views on what evidence local planning authorities should be expected to provide when making the case that need could only be met by building at densities significantly out of character with the existing area?**

It is considered that character and landscape assessments could be used to evidence why an authority's housing need can only be met by building at densities significantly out of character with the existing area. Character assessments could look at distinct areas of a borough or district and set out the range of residential densities that can be found in that area. However, in order to avoid challenge through several planning decisions or at appeal, the appropriate densities would need to be set out, and agreed, within a Local Plan or Local Design Code and be fixed for a number of years. Arguably, this timeframe should be at least five years in accordance with the lifespan of strategic policies on housing requirements.

11. Do you agree with removing the explicit requirement for plans to be 'justified', on the basis of delivering a more proportionate approach to examination?

The Council disagrees that the 'justified' test should be modified, as it is not convinced that its complete removal will make the process any more efficient.

Whilst it is clear that the level of evidence required, and the analysis of such is resource intensive, the Plan will still need to be evidence led and based, especially to stand up to scrutiny from the development industry at examination.

The Council is concerned that the removal of the words 'an appropriate strategy' would remove the obligation on the Local Planning Authority to define its vision and strategy for growth in the Borough, which is surely the purview of locally elected representatives, rather than a potential representor on the plan. In addition, much of the evidence is required either by national policy or guidance, or legislation.

The test of soundness that could usefully be amended is the need to evidence the effectiveness of plan policies over the plan period. This is a key driver of much evidence to demonstrate that policies can be delivered in ten plus years. Given the need to review Local Plans every five years, this test could usefully be altered to 'deliverable over the next five year period' which in itself would reduce the level of detail that many evidence-based studies need to go into.

12. Do you agree with our proposal to not apply revised tests of soundness to plans at more advanced stages of preparation? If no, which if any, plans should the revised tests apply to?

The Council agrees. It will be important for LPAs at the more advanced stages of preparation to have certainty and clarity of what is being expected in terms of evidence required when going into examination.

13. Do you agree that we should make a change to the Framework on the application of the urban uplift?

The Council agrees that the urban uplift needs to be met within the urban areas so far as possible to achieve the Government's objective of sustainable development. Urban areas linked to the urban uplift policy are the most sustainable location in which to meet housing need due to the close links to job availability and public transport solutions.

14. What, if any, additional policy or guidance could the department provide which could help support authorities plan for more homes in urban areas where the uplift applies?

The Council welcomes the consultation proposals to help ensure that the urban uplift is delivered in those urban areas, rather than spilling over into neighbouring authorities and putting undue pressure on greenfield sites. This is a concern that has been felt throughout the development of the Fareham Local Plan, and also in our work on a subregional level given the inclusion of Southampton in the list of the top 20. (The Council notes with interest that the weblink in the Planning Practice Guidance to the ONS page is broken and questions whether this is because new data will be released from the 2021 census).

In terms of additional policy or guidance, this Council considers that there needs to be clarity in terms of the extent of the urban area to which the urban uplift applies, and suggests that this is the city limits or the outer boundary of the relevant administrative area. There would be benefit in additional guidance as to how these urban authorities could plan more for homes, including but not limited to their ability to build higher, scrutinise the need for office sites to be safeguarded given the post-Covid habit of hybrid working, and the potential to bring in additional sites later in the Local Plan process. These suggestions would help those urban areas meet their own need, rather than exporting it to neighbouring areas where growth would be less than sustainable, particularly in transport terms.

15. How, if at all, should neighbouring authorities consider the urban uplift applying, where part of those neighbouring authorities also functions as part of the wider economic, transport or housing market for the core town/city?

We agree that the housing need must be met within the urban area where there is the supporting infrastructure available. A significant concern would be that in a situation where there is unmet need, the area to meet the uplift could extend to out of date 'Housing Market Areas' (HMA) based on pre-Covid pandemic modes and frequencies of travel and would not reflect the much larger geographic catchments for jobs now that hybrid working is common practice.

To use old HMAs would be inappropriate given that those peripheral areas do not have access to the jobs and public transport solutions and are therefore more car dependent, less sustainable locations. Areas within the same HMA can be very distinct in terms of character and it would be inappropriate to allow the urban uplift, which is designed to increase housing in the most sustainable locations, to spill into less sustainable peripheral locations.

16. Do you agree with the proposed 4-year rolling land supply requirement for emerging plans, where work is needed to revise the plan to take account of revised national policy on addressing constraints and reflecting any past over-supply? If no, what approach should be taken, if any?

The Council agrees the proposed 4-year rolling land supply requirement for emerging plans would be a positive approach for emerging plans which could be impacted by the transition. This proposal would potentially reduce the risk of speculative development during the transitional period and would prevent many authorities with significantly advanced Local Plans from delaying their progression through to examination.

17. Do you consider that the additional guidance on constraints should apply to plans continuing to be prepared under the transitional arrangements set out in the existing Framework paragraph 220?

The Council considers that any additional guidance on constraints that could be applied to plans at a significantly advanced stage would be likely to slow down plan making.

The need to consider new constraints would require additional evidence to support the Local Plan, and therefore would hinder the progression of plans that LPAs are trying to move forward under the transitional arrangements.

It would be better if these additional constraints only applied to plans at early stages in the plan-making process, or as part of the new plan-making process.

18. Do you support adding an additional permissions-based test that will 'switch off' the application of the presumption in favour of sustainable development where an authority can demonstrate sufficient permissions to meet its housing requirement?

The Council supports the principle of an additional permissions-based test for the HDT as it demonstrates that lack of delivery may not be the fault of the LPA, with one significant reservation which this response will detail. This Council also strongly believes that LPAs with up-to-date Local Plans should not have to face any sanction on its decision-making ability due to poor results in the HDT, a point which will be expanded on further in this answer.

The Council also considers that there are a number of areas where clarity is required:

- over how many years would the surplus permissions be considered,
- the type of permissions which would be counted,
- the evidence required to justify the sites' deliverability, and
- whether the delivery trajectory of the permissions would be considered.

The Council has made an assumption that the permission test would consider the previous three years' permissions in line with the HDT, however this should be made clear in guidance.

When considering the type of permissions, if the measurement is looking backwards over the previous three years of permissions in line with the HDT, there could be instances where a site with an outline permission is considered deliverable in year 1. However, a reserved matters application for the same site may be permitted in year 2 or 3 which could lead to double counting. Clarity over the type of permissions to be included is required.

If for example, the permissions were to be counted in line with the definition of deliverable in accordance with Annex 2 of the NPPF, the Council wonders how this evidence would be tested. It would seem that evidence of the deliverability of sites would be essential. It is the Council's experience that such evidence is often difficult to obtain where developers are unwilling to provide it, particularly if they have other planning applications or appeals with the same LPA, as it may not in their interest to assist the LPA to demonstrate a 5YHLS or achieve more favourable HDT results if they may gain planning permission for a speculative application through the application of the tilted balance. However, in the scenario of a 'switch-off' of the presumption in favour of sustainable development, would the Council's evidence of deliverability be accepted because the HDT results include the results of the permissions test? Would the Council need to submit its evidence to the Government before the HDT results are announced, or would the deliverability evidence be judged through the determination of applications and/or appeals? This is unclear but an important detail.

The Council consider that developers should be required to provide realistic anticipated delivery timeframes as part of their planning application which would be accepted as appropriate evidence to support this proposed permissions-test. The Council currently engages with developers on this information to support its 5YHLS statements and many oblige, but there are some who do not and it is not clear that this position will improve with the permissions test.

In terms of delivery timescales of sites, where permission for a large site is granted, the Council seeks clarity on the number of years that this permission could count in any permissions test. As an example, the Council granted outline permission for 6,000 homes at Welborne Garden Village in 2021. It is not clear whether this permission would count for one year, three years or whether the detail of future delivery per year, as we have established with the landowner/master developer, is used to inform the 5YHLS. The agreed delivery timeframe anticipates the delivery of 3,050 homes over the plan period starting in 2024/2025. This example highlights the need for clarity over the time frame for which permissions can be counted and again, the evidence required to support the test.

More generally however, and a point of principle, is that from time to time, the ability of LPAs to grant planning permission is severely hampered because of reasons outside of its control. An example of this is the impact of nutrient neutrality and how this issue has led to moratoriums in the granting of permissions over the last few years for many LPAs, leading to poor results in the HDT (as low permissions generate low levels of housebuilding). This is an ongoing issue for a number of authorities and has been at the forefront of this Council's mind when developing its stepped requirement for the new Local Plan.

In these situations, it would be wholly unfair to penalise an LPA where such issues are having such a significant effect. This can clearly be seen in Fareham, when following the issue of Natural England's advice in February 2019, the Council halted issuing decisions until a solution could be identified. This situation lasted until September 2020, a full eighteen months and as a result, only 219 net dwellings were permitted in 2018/19 and only 45 homes in 2019/20, compared with an annual average over the past five years of 395 net dwellings permitted. Therefore, the

Council considers it is essential that the HDT must also take account such impacts, for example the HDT is disapplied in areas struggling with the concept of nutrient neutrality.

The proposed changes to the HDT indicates that there is recognition that housing delivery is not entirely within the LPA's control, which is welcomed but as set out above, there are further considerations which should be taken into account.

As an alternative to introducing further complications to the HDT, the Council proposes that the HDT should not be applied where an LPA has an up-to-date local plan, much the same as the 5YHLS requirement would be abolished. In this Borough, we will face the presumption in favour of sustainable development until at least the third year of the plan period despite moving forward with the plan. On day one following adoption of Fareham's new Local Plan, the HDT will still apply. To have to apply the presumption in favour of sustainable development, whether reached through a lack of 5YHLS or a poor HDT result, makes a mockery of the plan-led system. In those situations, despite an up-to-date plan, Fareham's residents are still exposed to hostile developments. It is for that reason that this Council believes that the HDT should impose no penalty on up-to-date plans.

19. Do you consider that the 115% 'switch-off' figure (required to turn off the presumption in favour of sustainable development Housing Delivery Test consequence) is appropriate?

The Council considers that this proposed permissions-based test is merely replacing the removal of the 20% buffer for HDT and this would appear to offer minimal benefit to the LPA. The imposition of a 15% buffer for permissions to be defined as deliverable places exactly the same burden on LPAs for evidence of deliverability as we currently face via the 5YHLS. As such, if the Council wishes to have the ability to rely on the permissions 'switch off', it must grant permissions for our housing requirement plus 15%, instead of the current situation of having to grant permissions for our housing requirement plus 20%. The difference between 15% and 20% of Fareham's housing requirement is approximately 30 homes and therefore, in reality these proposals are removing the buffer from one test, only to apply a very similar buffer to another test, both of which equates to granting more permissions than necessary.

Moreover, the Council considers the 115% level is too high. The historic lapse rate for Fareham Borough is much lower than 15% (ranging between 5% and 9%). The Council therefore considers that if setting a fixed rate, there must be the ability to set the level locally. The Council proposes instead that an individual switch off rate could be used, informed by local evidence to set an appropriate percentage. This lapse rate could either be set and agreed through the Local Plan process or via an annual monitoring return to Government, through the DELTA system.

20. Do you have views on a robust method for counting deliverable homes permissioned for these purposes?

The Council suggests that the method for counting deliverable permissions currently used in the calculation of 5YHLS would be a robust method, however the method could be further boosted by requiring developers to submit evidenced returns on the anticipated delivery and completion timeframes of sites. It is often difficult to gain this evidence where it is not in a developer's interest that the LPA can evidence that there are sufficient deliverable homes with permission, as the developer may have planning applications or appeals with the same LPA which are speculative in nature and may benefit from the application of the tilted balance. The system may never be perfect and the Council accepts the indicative delivery rates will change with economic cycles, however, it strongly believes that developers should be required to provide such evidence alongside their planning applications and appeals.

The requirement for a realistic anticipated delivery timeframe could be further supported by the imposition of financial penalties on developers who continually fail to meet their anticipated delivery. An alternative measure could be to treat all planning permissions as deliverable but apply an agreed lapse rate. The delivery of housing in a timely manner could be further encouraged by shortening the lifespan of planning permissions unless there are agreed exceptional grounds. The Council are eager to see how these issues are addressed through wider planning reform.

21. What are your views on the right approach to applying Housing Delivery Test consequences pending the 2022 results?

The Council's preference is that the HDT should be removed for Councils with newly adopted plans to further enshrine the Government's commitment to a plan-led system. This Council is likely to shortly to adopt its Local Plan but will still need to apply the tilted balance due to poor delivery results as a result of situations entirely out of the Council's control.

However, if the test is to be amended as described with a permissions-based test, such amendments need to be very clear on the points raised in the answer to question 18. If these cannot be done quickly, a suspension of the HDT for newly adopted plans would seem appropriate.

22. Do you agree that the government should revise national planning policy to attach more weight to Social Rent in planning policies and decisions? If yes, do you have any specific suggestions on the best mechanisms for doing this?

The Council agrees. The importance of Social Rent is already recognised locally and reflected in the emerging Fareham Local Plan 2037 Policy HP5: Provision of Affordable Housing which requires 10% of affordable provision on a site to be Social Rent. This type of approach could be mirrored at a national level. Social Rent should be encouraged and put above other affordable housing tenures.

23. Do you agree that we should amend existing paragraph 62 of the Framework to support the supply of specialist older people's housing?

The Council supports the proposal for wording change but suggests a further refinement is necessary to that paragraph. The suggested additions go some way to reflecting that the needs of older people are not homogenous and are helpful reminders to the reader that needs often are linked to the level of care which the individual requires. Remembering this need for greater distinction between the types of people who fit within the older people category will be beneficial for planners considering the level of need to attribute to this ‘group’

The inclusion of the words ‘care homes’ encourages this Council to reflect that 'care homes' does not only apply to older people but can also include people with disabilities. Similarly to ‘older people’, ‘people with disabilities’ is a broad grouping and has a range of implications in terms of housing need. Perhaps additional wording or guidance is also required to assist planning authorities with planning for this group.

24. Do you have views on the effectiveness of the existing small sites policy in the National Planning Policy Framework (set out in paragraph 69 of the existing Framework)?

The Council recognises the value in smaller sites potentially delivering homes at a faster rate but have concerns that encouraging the sub-division of larger sites, as referred to in the consultation document, could undermine those policy requirements which would apply on larger sites as a whole, for example self and custom build or affordable homes.

The Council considers that whilst targets can be helpful (in this case 10% of the housing supply), the ability to meet the target is dependent on the availability of sites made known to LPAs through a ‘Call for Sites’ exercise and therefore not necessarily withing the control of the LPA. Fareham Borough Council has sought to address this by introducing a specific policy in the emerging Local Plan, entitled ‘New Small-Scale Residential Development Outside the Urban Areas’, which seeks to boost the delivery of small residential sites which are sustainably located within or adjacent to existing settlements. Although the Local Plan supply on small sites falls short of the target (largely because of the treatment of some small sites as windfall), this policy is an attempt to encourage smaller sites to come forward over the plan period.

25. How, if at all, do you think the policy could be strengthened to encourage greater use of small sites, especially those that will deliver high levels of affordable housing?

It is considered that the existing policy does not disincentivise the delivery of small sites nor affordable housing provision. Small sites form an important part of affordable delivery in the borough of Fareham. Registered Providers and the Council’s own Housing Delivery team take forward smaller more challenging sites not of interest to the private market.

26. Should the definition of “affordable housing for rent” in the Framework glossary be amended to make it easier for organisations that are not Registered Providers – in particular, community-led developers and almshouses – to develop new affordable homes?

Care would need to be taken to ensure that this option could not be abused by those providers who may wish to maximise profit or to control the occupancy of affordable homes. If this proposal is implemented, the Council suggests that, rather than leave the details of regulation and monitoring to individual local authorities, the Government could set standard section 106 clauses and mechanisms to be followed in the event that affordable housing is provided by a non-registered provider, possibly including an in-perpetuity commitment to retaining the site for affordable housing as a register on the land.

A key requirement could be that organisations are a non-profit organisation or charity, and that any excess funds are ringfenced for the maintenance and/or provision of further affordable homes. In the case of homes for social or affordable rent, the non-registered provider should also be required to seek allocation of their site in Local Plans, to ensure they help meet local affordable need and that homes are appropriately prioritised to households on the Council's Housing Register.

27. Are there any changes that could be made to exception site policy that would make it easier for community groups to bring forward affordable housing?

The Council has no comments to make. Whilst community-led development is supported by this Council, it is not a form of development that is known in this Borough.

28. Is there anything else that you think would help community groups in delivering affordable housing on exception sites?

The Council has no comments to make. Whilst community-led development is supported by this Council, it is not a form of development that is known in this Borough.

29. Is there anything else national planning policy could do to support community-led developments?

The Council has no comments to make. Whilst community-led development is supported by this Council, it is not a form of development that is known in this Borough.

30. Do you agree in principle that an applicant's past behaviour should be taken into account into decision making?

The Council agrees that public confidence in the planning system is undermined when planning rules are deliberately ignored. In terms of the types of past behaviour that should be considered to be in scope, the Council has experience of developers deliberately clearing land which contains protected species and ecologically valuable habitats, failure to pay contributions required under Section 106 and CIL and not building in accordance with approved plans.

However, the Council recognises the difficulty in applying this in practice especially in the context of the long-standing principle that planning decisions should be based on the planning merits of the proposed development and not the applicant. The Council questions how far back in time past behaviour should be considered relevant and what an applicant would be required to demonstrate in order to avoid sanctions.

31. **Of the two options above, what would be the most effective mechanism? Are there any alternative mechanisms?**

The Council believes the planning enforcement regime needs to be made more robust to discourage developers from breaching their planning permissions, conditions and planning obligations. The serving of breach of condition notices and planning enforcement notices still remains a very protracted process, particularly the latter.

In addition, planning enforcement notices have a right of appeal which means that some cases can take years to resolve where those rights of appeal have been exercised.

In summary the planning enforcement system needs to be able to take swift action and to have 'more teeth'.

32. **Do you agree that the 3 build out policy measures that we propose to introduce through policy will help incentivise developers to build out more quickly? Do you have any comments on the design of these policy measures?**

The Council is not clear how these build out policy measures will lead to faster build out rates as merely reporting on developers' performance seems unlikely to have an impact. It appears that the burden of delivery will still fall to the LPA.

The Council considers that it would be significantly beneficial to introduce a requirement for developers to provide realistic estimated delivery timeframes at the point of application. This information could be used as a material consideration in the decision-making process and would enable LPAs to inform any 5YHLS requirement or HDT permission evidence. The continual failure to deliver in accordance with these anticipated timeframes could also be a material consideration and lead to financial penalties.

The Council considers it is essential that the proposals in the Bill inform the future planning review.

33. **Do you agree with making changes to emphasise the role of beauty and placemaking in strategic policies and to further encourage well-designed and beautiful development?**

The Council agrees and is encouraged by the approach taken through the National Design Guide and New Model Design Code to emphasis and guide placemaking.

However, it is critical that a similar emphasis and status is given to the forthcoming update to Manual for Streets (MfS), which has a pivotal role to play in delivering high quality within the public realm. It is essential that MfS becomes a requirement for adoption and delivery by local Highway Authorities.

In addition, further guiding principles should be set out by the government to steer the interpretation of beauty, using suitable codes and exemplars. It is not considered sufficient to only reference 'height, form and density' as key elements, as in chapter 6 paragraph 3 of the consultation document. Much more could be said about the many other facets of development that contribute towards placemaking and beauty, such as the balance and proportion of buildings, their mass, the detailing of windows, doors, roofs and finer architectural details together with streets, pavements, lighting and landscape and how they combine to deliver a pleasing street composition.

34. Do you agree to the proposed changes to the title of Chapter 12, existing paragraphs 84a and 124c to include the word 'beautiful' when referring to 'well-designed places', to further encourage well-designed and beautiful development?

The Council agrees subject to further guidance identified in Q33. The Council considers that identifying further quality criteria and emphasising its requirement is an important part of delivering high quality place-making.

35. Do you agree greater visual clarity on design requirements set out in planning conditions should be encouraged to support effective enforcement action?

The Council agrees. The Council consider that some plans and drawings are not sufficiently accurate or are difficult to interpret. The Council considers that use of digital plans and use of three-dimensional computer models should be submitted where appropriate. This would also help to support the Government's plan for a digital planning system.

36. Do you agree that a specific reference to mansard roofs in relation to upward extensions in Chapter 11, paragraph 122e of the existing framework is helpful in encouraging LPAs to consider these as a means of increasing densification/creation of new homes? If no, how else might we achieve this objective?

The Council disagrees. The Council consider that use of design codes and principles, suitably informed by character studies and local peoples' views, should guide future upward extensions. It is not considered appropriate to solely identify mansard roof forms as a solution, where other roof forms can also work.

37. How do you think national policy on small scale nature interventions could be strengthened? For example, in relation to the use of artificial grass by developers in new development?

The Council would like to see national policy further strengthened by including wording that supports development that includes small scale nature interventions such as bat and bird boxes, bee and swift bricks and hedgehog highways. The Council suggests that this could be achieved through a modification or expansion of paragraph 180 of the NPPF which already describes possible opportunities to improve biodiversity in and around development and how those opportunities should be integrated as part of the scheme's design.

It would be important to make clear that features such as bat and bird boxes, bee and swift bricks and hedgehog highways are included as permanent features within development, including being made from durable materials and located within the fabric of the buildings wherever possible, to ensure they provide long lasting benefits to nature and are not removed upon occupation.

The Council welcomes the Government's view on the use of artificial grass and considers national policy should also be amended to restrict the use of artificial grass within development, only permitting its use in very limited circumstances such as on sports pitches. This is in recognition of the impacts that artificial grass has on wildlife, increasing levels of plastic pollution, its contribution to the urban heat island effect and potential to increase surface water run-off in developments, all in comparison to natural lawns and grassland.

38. Do you agree that this is the right approach making sure that the food production value of high value farm land is adequately weighted in the planning process, in addition to current references in the Framework on best most versatile agricultural land?

The Council strongly supports the approach of giving greater consideration to the relative value of agricultural land for food production when deciding which sites are appropriate for development, particularly in light of food security and building resilience to future crisis and shocks.

However, it should be noted that the majority of undeveloped land remaining within Fareham Borough which is not already constrained by irreplaceable habitats, important nature conservation designations or flood zones, is predominantly agricultural land that is of value to food production (i.e. best and most versatile agricultural land- classifications 1-3).

Therefore, in order to meet future development needs in full, the loss of valued farmland for food production is likely to be required. Therefore, the Council will need to balance up two competing priorities when taking forward its next Local Plan, and suggests that to accord with the Government's food strategy by maintaining a high degree of food security, valued agricultural land for food production should be included within footnote 7 of paragraph 11 in the Framework as a genuine constraint to meeting development needs.

39. What method or measure could provide a proportionate and effective means of undertaking a carbon impact assessment that would incorporate all measurable carbon demand created from plan-making and planning decisions?

The Council considers the requirement to conduct a proportionate and effective carbon impact assessment to be challenging and questions if LPAs will have the necessary resource and expertise to undertake an accurate assessment. However, a potential method to achieve a carbon impact assessment could be achieved through the creation of a Local Plan 'Development Carbon Assessment Toolkit' produced for use by developers and LPAs. This could involve a series of formulas for estimates of carbon associated with different types of development for example:

- Construction materials

- Type of development
- Type of building
- Number of floors & footprint
- Associated infrastructure and sizes e.g. new roads etc

This toolkit would then produce a carbon footprint for a proposal or local plan allocation based on the information submitted. The results from the tool would only provide an estimate, and the accuracy of the footprint figure would be dependent on the quality of the data used to create the formulas and the data inputted into the tool. How the carbon impact from other policies in Local Plans is to be assessed and measured remains challenging.

The Council recommends that clarity is also needed around the scope of any carbon impact assessments. For example, would a carbon impact assessment be required to assess the carbon produced throughout the lifetime of the development, for example through estimates for the annual carbon footprint from gas, electricity, water and transport linked to a new development. This again could be quantifiable with the right type of toolkit.

Whilst it is supportive of the aspiration to better understand the carbon footprint of proposals, the Council believes that this proposal is not going to have a significant impact unless carbon reduction or offsetting requirements are tied to Local Plans. Clarity is sought as to what the results of a carbon impact assessment would be used for. For example, could the data or results be used as a material consideration in decision making, or would LPAs or developers be expected to identify ways that these emissions could be offset/mitigated.

40. Do you have any views on how planning policy could support climate change adaptation further, specifically through the use of nature-based solutions that provide multi-functional benefits?

The Council suggests that national policy could support climate change adaptation further by requiring both major and minor development to incorporate sustainable drainage systems unless there is clear evidence that this would be inappropriate. This is in recognition of the multi-functional benefits that SuDs provide and the cumulative difference/improvement that can be achieved if minor development also incorporated SuDs where possible in addition to the existing requirement on major development.

Furthermore, the requirement to incorporate SuDs within development (as stated in existing paragraph 171 in the NPPF) could also be strengthened to state that SuDs should be designed to be as natural as possible.

In addition, the Council also believes that national policy could include a requirement that in all cases surface water run-off rates from proposed development does not exceed existing run-off rates and for brownfield sites in particular, runoff rates are reduced where possible. This is in recognition of reducing flood risk and helping to reduce stormwater overflows water particularly in light of a changing climate.

Whilst existing paragraph 131 in the Framework refers to the important contribution that trees make to helping mitigation and adaptation to climate change, this could be further strengthened to include reference to helping to reduce the urban heat island effect in urban environments. This could also be extended to other habitats and forms of green infrastructure which also help to reduce the urban heat island effect. This is in recognition that with climate change, summers are expected to be hotter and drier further amplifying the urban heat island effect in our towns and cities.

The Council also considers national policy should support climate change mitigation further by including a requirement that all development should use sustainably sourced materials including promoting the use of recycled materials within development where possible. This is in order for development to help meet legally binding carbon reduction targets set by Government as well as protecting and enhancing the environment. New development should not use materials that contribute to deforestation or lead to environmental degradation and pollution.

41. Do you agree with the changes proposed to Paragraph 155 of the existing National Planning Policy Framework?

Whilst the Council agrees with the principle of including re-powering, the proposed changes introduce the concept ahead of footnote 63 that refers to re-powering of wind turbines, therefore the ordering of the references needs to be reviewed.

Overall, the Framework is short of the explanation provided within the consultation document. The Council would suggest that the proposed new paragraph 157 should include a specific reference to 're-powering' in the context of wind turbines and should be included in the glossary.

42. Do you agree with the changes proposed to Paragraph 158 of the existing National Planning Policy Framework?

The Council suggests that with the additional changes to paragraph 155 referenced in its answer to question 41, the addition to paragraph 158 would make sense and is supported. However, the Council would request that further clarity is made in relation to what constitutes the 'baseline existing on the site', especially in circumstances where the turbine has been out of action, perhaps through decommissioning.

43. Do you agree with the changes proposed to footnote 54 of the existing National Planning Policy Framework? Do you have any views on specific wording for new footnote 62?

The Council is concerned that the amended wording focuses on the use of Supplementary Planning Documents, when these are set to be removed through the future provisions. National policy should focus on the need to evidence wind opportunities during Local Plan preparation through the preparation of a 'Renewable Energy Capacity Study' to inform plan policy.

The Council also disagrees with the change from 'fully' to 'satisfactory' with regards to identified impacts, as this could be construed as lowering the level at which mitigation of impacts is required.

44. Do you agree with our proposed Paragraph 161 in the National Planning Policy Framework to give significant weight to proposals which allow the adaptation of existing buildings to improve their energy performance?

The Council agrees that significant weight should be given to the need to support energy efficiency and that this should be considered alongside the other considerations and policies within the Framework.

45. Do you agree with the proposed timeline for finalising local plans, minerals and waste plans and spatial development strategies being prepared under the current system? If no, what alternative timeline would you propose?

The Council suggests more clarity is needed in regard to how the spring 2023 changes to the Framework are included in what is defined as the 'current system'. A number of the proposed alterations set to take place in the spring are significant enough to prompt some local authorities to pause and delay plan progression to allow for changes to be taken into account.

However, these transitional arrangements should not apply to this Council as we are awaiting the end of the examination process.

46. Do you agree with the proposed transitional arrangements for plans under the future system? If no, what alternative arrangements would you propose?

The Council supports the proposed transitional arrangements for Local Plan preparation but would like to see more clarity provided in what constitutes a start on preparation. The Framework should be clear on whether a formal notification to DLUHC or PINS is required, or whether commissioning evidence studies for example triggers the process.

The Council notes that the 2020 planning reform consultation referenced a statutory timescale and sanctions for non-compliance. It is pleased that these do not feature in this consultation which recognises the many external factors which influence a Council's ability to progress its Local Plan.

47. Do you agree with the proposed timeline for preparing neighbourhood plans under the future system? If no, what alternative timeline would you propose?

The Council agrees with the proposed timeline for preparing neighbourhood plans. This is consistent with the proposals for other development plan documents which provides for clarity within the system.

48. Do you agree with the proposed transitional arrangements for supplementary planning documents? If no, what alternative arrangements would you propose?

The Council notes the proposed new arrangements for Supplementary Plans. However, further clarity is required to understand the process of adopting Supplementary Plans.

If they are to hold the same weight as Local Plans, it is assumed that they will require a similar examination process. The Framework or future guidance should be clear in explaining this process to ensure that there is not a policy vacuum when SPDs expire.

Clarity is also sought on the transition between SPDs and the new Supplementary Plans. For example, if a Local Authority has a newly adopted plan before the SPD switch off, will they be required to prepare Supplementary Plans before they start on a new Local Plan. If so, this might affect the ability of that LPA to progress a new Local Plan, and could be of concern if that work is also required within the 30 month window for Local Plan preparation, particularly given the under-resourced nature of many Council Planning services.

49. Do you agree with the suggested scope and principles for guiding National Development Management Policies?

The Council agrees in principle with the scope and principles for guiding National Development Management Policies where they relate to high level or 'generic' matters. For example, high level policies on amenity impacts, secured internal space standards, presumption in favour of sustainable development etc. are often very similar across most if not all Local Plans.

It will be important that National Development Management Policies are clear to avoid ambiguities, so that policies are applied consistently across the country.

50. What other principles, if any, do you believe should inform the scope of National Development Management Policies?

As referenced in the answer to question 49, the overriding principle should be the ability of the new NDMPs to avoid misinterpretation between LPAs.

51. Do you agree that selective additions should be considered for proposals to complement existing national policies for guiding decisions?

The Council agrees that selective additions would complement existing national policies for guiding decisions but disagrees with those in relation to housing in town centres and built-up areas as these types of areas across the country are so diverse.

52. Are there other issues which apply across all or most of England that you think should be considered as possible options for National Development Management Policies?

The Council considers that the following are examples of other issues which would apply to all or most of England and should be considered as possible options for National Development Management Policies: internal space standards, surface water drainage and flood risk, protection of heritage assets.

In addition, in relation to question 56, measures to improve safety for women, girls and other vulnerable groups in society could be the consideration of a NDMP.

53. What, if any, planning policies do you think could be included in a new framework to help achieve the 12 levelling up missions in the Levelling Up White Paper?

The Council considers that there are some areas where additional planning policies could be included in a new framework to help achieve the twelve Levelling Up missions in the Levelling Up White Paper. For example, the Government could re-consider the role of and use of Permitted Development Rights particularly in town centres, as this has been a key driver behind the loss of retail units in town centres which impacts the prosperity of the UK's high streets and people’s engagement in their local cultures and community.

The Council also considers policies on specifying quantity standards for open space in a new framework would help achieve the levelling up objective of raising life expectancy, improving wellbeing and generally rising a sense of ‘pride of place’ through having development that has access to open space and nature.

54. How do you think that the framework could better support development that will drive economic growth and productivity in every part of the country, in support of the Levelling Up agenda?

The Council considers that the provision of policies in the Framework which would support the delivery of sustainable homes where they are needed, close to areas of employment would assist in driving economic growth and productivity. By sustainably locating development, the need to travel is reduced with evidence of higher productivity and job satisfaction levels within the workforce, alongside the more obvious environmental benefits.

55. Do you think that the government could go further in national policy, to increase development on brownfield land within city and town centres, with a view to facilitating gentle densification of our urban cores?

The Council considers that this outcome should not be focused just on the ‘urban cores’. Areas for gentle densification are to be defined at the local level, through the Local Design Codes, and accompanied by other performance criteria such as the use of balconies, roof terraces, cycle parking spaces/facilities and reduced car parking ratios.

Gentle densification could be achieved through setting open space and parking standards associated with city and town centre development to be significantly lower than outer areas in conjunction with setting a minimum density. In addition, allowing for subdivision of larger houses to smaller units could also help towards generating 'gentle densities'.

In addition, the Council considers that a more beneficial fiscal regime could be introduced that would facilitate gentle densification on brownfield sites as advantageously as greenfield development, in terms of viability.

56. Do you think that the government should bring forward proposals to update the framework as part of next year’s wider review to place more emphasis on making sure that women, girls and other vulnerable groups in

society feel safe in our public spaces, including for example policies on lighting/street lighting?

The Council would welcome any proposals which would lead to improved safety outcomes for vulnerable members of society. An emphasis on this in the future Framework would continue to highlight the difficulties encountered by these groups and any policies which would address these issues would seem to only be a positive. Safety for vulnerable groups could be addressed through the new National Development Management Policies as it is a nationwide issue.

57. **Are there any specific approaches or examples of best practice which you think we should consider to improve the way that national planning policy is presented and accessed?**

Fareham Borough Council, as an organisation, employs a customer-focussed approach to service design. Therefore, in order to support how local planning policy is presented, hard copies are available, as is information on our website in print and map-based form where appropriate. There is also a team of people at the end of a telephone to answer queries that members of the public may have.

This is the approach that national policy should follow. For example, this consultation document was not available as a PDF document which made it difficult to share and to print, for those who need to read hard copies. This was different to how the tracked change version was presented, and choice is key in order to encourage access.

More generally, the Council is concerned that the proposed shortening of the timeframe for plan making may make the whole process seem rushed, leading to confusion and frustration for local communities. The Council considers this could be avoided and a greater understanding of the planning system achieved with a sustained period of stable national policy and key elements such as the Standard Method for calculating housing need being unchanged, once it is reviewed again next year.

58. **We continue to keep the impacts of these proposals under review and would be grateful for your comments on any potential impacts that might arise under the Public Sector Equality Duty as a result of the proposals in this document.**

The Council has no comments to make.

FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
06 February 2023

Portfolio:	Policy and Resources
Subject:	**Finance Strategy, Capital Programme, Revenue Budget & Council Tax 2023/24**
Report of:	Deputy Chief Executive Officer and Section 151 Officer
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:
This report seeks final confirmation of the recommendations to be made to Council, on 24 February 2023, in respect of the revenue budget, capital programme and council tax for 2023/24.

Executive summary:
On 9 January 2023, the Executive reviewed the Council's overall finance strategy and considered proposals relating to the revenue budgets and the council tax for 2023/24. This report updates the Council's budgets to reflect the decisions taken and other known changes since 9 January 2023.

The capital programme for the years 2022/23 to 2026/27 will be £37,768,800.

The revenue budget for 2023/24 will be £11,897,100. With retained business rates and grants estimated to be £3,931,745 and no payment from the collection fund, the total amount due from the council taxpayers will be £7,965,355.

Taking these changes into consideration, the council tax for 2023/24 will be £180.46 per Band D property. This represents an increase of £5.24 per year from the council tax set for 2022/23 and is within the 2.99% referendum threshold set by the Government.

Recommendation/Recommended Option:
It is recommended that the Executive approves and recommends to the meeting of the Council to be held on 24th February 2023:

(a) the capital programme and financing of £37,768,800;

(b) an overall revised revenue budget for 2022/23 of £10,987,300;

(c) a revenue budget for 2023/24 of £11,897,100;

(d) a council tax for Fareham Borough Council for 2023/24 of £180.46 per band D property, which represents a £5.24 per year increase when compared to the current year and is within referendum limits;

(e) an unchanged Council Tax Support scheme for 2023/24; and

(f) that the Council continues to disregard the whole of any incomes prescribed in the Housing Benefit (War Pensions Disregards) Regulations 2007 and the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012.

Reason:
To allow the Council to approve the Council Tax for 2023/24.

Cost of proposals:
Not applicable

Appendices: **A:** Overall Total Budget for 2023/24

Background papers: None

Reference papers: None

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	06 February 2023
Subject:	Finance Strategy, Capital Programme, Revenue Budget & Council Tax 2023/24
Briefing by:	Deputy Chief Executive Officer and Section 151 Officer
Portfolio:	Policy and Resources

INTRODUCTION

1. On 9 January 2023 the Executive reviewed the Council's overall finance strategy and considered proposals relating to:

    - The revised revenue budget for 2022/23;
    - Fees and charges for 2023/24;
    - The revenue budget for 2023/24; and
    - The council tax for 2023/24.

2. The purpose of this report is to update the Council's spending plans to take account of the decisions taken by the Executive in relation to these various issues.

THE CAPITAL PROGRAMME 2022/23 TO 2026/27

3. The capital programme for the General Fund for the period 2022/23 to 2026/27 is being reported elsewhere on this agenda as part of the Capital Strategy Report and totals £37,768,800.

4. The updated programme is shown in the following table:

	£000s
Health and Public Protection	9
Streetscene	376
Leisure and Community	17,772
Housing	3,962
Planning and Development	446
Policy and Resources	15,204
TOTAL	**37,769**

5. It is anticipated that the programme will be financed from the following sources:

	£000s
Capital Receipts	5,705
Grants and Contributions	21,660
Capital Reserves	4,367
Revenue	3,325
Borrowing	2,712
TOTAL	**37,769**

6. The programme and projected resources indicate that, by 31 March 2026, there could be a small surplus of capital resources of £4.8 million, which represents a contingency of 13% on the overall capital programme.

7. Importantly, the surplus assumes an estimate of future capital receipts and grants as well as continued revenue contributions towards capital investment, totalling £18 million. In the event that these resources do not materialise, the programme will become partly unfunded.

REVISED BUDGET 2022/23

8. In January, the Executive considered in detail the revised budget for 2022/23, which totalled £10,987,300 and is £199,300 higher when compared to the base budget for the current year. However, to achieve this figure there is a contribution from general fund reserves of £1,239,500.

SERVICE BUDGETS 2023/24

9. The following table shows the service budgets resulting from the decisions of the Executive on 9 January 2023 where the Cemeteries service has moved from the Streetscene Portfolio to the Health and Public Protection Portfolio.

Committees	**Base Budget 2023/24 £**
Licensing and Regulatory Affairs	540,400
Planning	694,300
Executive - Portfolio Budgets	
- Leisure and Community	-41,200
- Housing	2,270,800
- Planning and Development	1,999,600
- Policy and Resources	222,500
- Health and Public Protection	765,800
- Streetscene	5,160,600
Depreciation Adjustments in Service Portfolios	4,101,900
SERVICE BUDGETS	**15,714,700**

OTHER BUDGETS 2023/24

10. As there were no changes made at the January Executive the “Other Budgets” total will be -£3,817,600.

THE OVERALL BUDGET POSITION FOR 2023/24

11. Taking account of the information referred to in the preceding paragraphs, the overall total budget for 2023/24, detailed in Appendix A, is confirmed as £11,897,100 which is £1,109,100 above the base budget for 2022/23. However, to achieve this figure there is a contribution from general fund reserves of £400,900.

12. Although the situation with the cost of living crisis remains unclear going into the new financial year it is anticipated that there will be no further support from central government to councils relating to this crisis.

THE LOCAL GOVERNMENT FINANCE SETTLEMENT AND GOVERNMENT SUPPORT

13. The Local Government Finance Settlement was announced on 19 December 2022 and confirmed that it would again be a one-year settlement for 2023/24 with some indications about funding for 2024/25.

14. The statement also announced there would be a 3% Funding Guarantee for Local Authorities. This grant along with the Services Grant is worth £340,000 to Fareham.

15. In the Local Government Finance Settlement 2022 the referendum limits for local authorities were set out and council tax increases that exceed 2.99% would trigger a referendum. However, the government has also allowed shire districts to raise their council tax by the higher of 2.99% or a maximum of £5 when compared to the previous level, before a referendum is triggered.

16. As this settlement was for one year only there remains the details of the Fair Funding Review which has been delayed further until at least 2025/26. With the outcome of this review unclear, it is important that the Council continues to identify and secure cash-releasing efficiencies each year in order to maintain the high level of service currently provided and continue to achieve its corporate priority to minimise council tax increases.

SPENDING RESERVE

17. The spending reserve exists to cover unforeseen changes in revenue expenditure.

18. The current balance on the reserve stands at £6,876,300 which is £3,111,300 over the minimum required balance of 7.5% of Gross Expenditure as set out in the approved Medium Term Finance Strategy.

19. It is important to note that due to the COVID-19 pandemic and subsequent cost of living crisis the revised budget for 2022/23 (£1,239,500) and base budget for 2023/24 (£400,900) will require some of the surplus to be used to offset the additional cost to the council of the crisis.

20. As well as the requirement to use reserves to balance the budget for 2023/24, the Medium Term Finance Strategy covers the period through to 2026/27 and is showing a projected shortfall of £1.4m in 2024/25 and a further shortfall of £2.3m in the final 2 years of the strategy. This would mean by 2025/26 there will be no further general reserves available to balance the budgets through to 2026/27 and beyond.

21. There also remains the unknown financial implications of the outcome of the Fair Funding Review which is due in 2025/26 so any further use of all reserves must be carefully considered.

COUNCIL TAX AND NATIONAL NON-DOMETIC RATE BASE

22. The council tax base for 2023/24 is 44,139.40 Band D equivalent properties.

23. The net rates payable from National Non-Domestic Rates for 2023/24 (after Transitional arrangements and reliefs) is £41,475,055.

COUNCIL TAX FOR 2023/24

24. With a net budget for 2023/24 of £11,897,100 and government funding of £3,931,745 along with a zero contribution from the collection fund, this will leave an amount due from council tax payers of £7,965,355. This is shown in the following table:

	Base Budget 2022/23	**Base Budget 2023/24**	**Variation**
	£	**£**	**£**
Total Budget	**10,788,000**	**11,897,100**	1,109,100
Less: Government Funding and Retained Business Rates	-3,117,262	-3,931,745	-814,483
Collection Fund deficit	39,398	0	-39,398
Total due from Council Tax Payers	**7,710,136**	**7,965,355**	+255,219
Council Tax base	44,002.6	44,139.4	
Council Tax (Band D)	£175.22	£180.46	
Cash Increase (per year)	+ £5.00	+ £5.24	
Percentage Increase (per year)	+2.94%	+2.99%	

25. The proposed council tax increase is within government referendum limits.

26. The proposed council tax of £180.46 is for Band D properties only and the Fareham element of the council tax for all bands is shown in the table below:

	2022/23	2023/24	Increase	Number of Dwellings
Band A	£116.81	£120.31	£3.50	3,615
Band B	£136.28	£140.36	£4.08	7,278
Band C	£155.75	£160.41	£4.66	15,563
Band D	**£175.22**	**£180.46**	**£5.24**	**10,733**
Band E	£214.16	£220.56	£6.40	8,047
Band F	£253.10	£260.66	£7.56	3,616
Band G	£292.03	£300.77	£8.74	1,496
Band H	£350.44	£360.92	£10.48	124

27. The overall income from taxpayers of £7,965,355 represents approximately 16% of the gross revenue budget for the council for 2023/24 of £50.2million.

ASSURANCE STATEMENT BY THE CHIEF FINANCIAL OFFICER (CFO)

28. Section 25 of the Local Government Act 2003 states that when the Council sets a budget for the forthcoming financial year, the CFO must report to the authority on the robustness of the budgets and the adequacy of the financial reserves.

29. The CFO is able to confirm that the Council's co-ordinated finance strategy allows the availability of resources to finance both capital and revenue expenditure to be considered at the same time. It provides the necessary flexibility to allow resources to be allocated to both capital and revenue and this has enabled the delivery of balanced budgets for both capital and revenue.

30. The CFO can also confirm the robustness of the approved budgets and therefore major variations in expenditure and income are not anticipated. However, a risk assessment has been carried out to highlight the impact of possible variations in the level of expenditure and income and by maintaining the spending reserve at a minimum of 5% of gross expenditure, resources should be in place to meet any variations that cannot be met from within the Council's overall budget.

COUNCIL TAX SUPPORT 2023/24

31. Legislation requires that Local Council Tax Support schemes are considered by Full Council on an annual basis even if no major changes are to be made. In previous years and following public consultation, the Council has agreed and implemented a scheme based on the following principles:

- Every working-age claimant should pay something towards their council tax

- The amount of Council Tax Support to be capped to a Band C for those claimants living in larger properties

- All non-dependents (such as adult sons or daughters living in the claimant's property) should pay something towards the household's council tax bill

- Provide additional financial support to the most vulnerable claimants (such as those receiving a War Pension or who are severely disabled)

32. For 2023/24, it is proposed to retain these key principles and to administer an unchanged scheme.

33. There are currently 3,744 households in the borough receiving Council Tax Support. The caseload and expenditure for the current financial year can be seen below:

	Number of claimants	Cost of Council Tax Support
Pension-age caseload	1,762	£1,932,501
Working-age caseload (vulnerable group)	1,067	£1,225,653
Working-age caseload (employed)	149	£64,251
Working-age caseload (not employed)	766	£649,186
Total	**3,744**	**£3,871,591**

*In receipt of an out-of-work benefit such as Job Seekers Allowance, Income Support or Universal Credit

34. It is anticipated that an unchanged Council Tax Support scheme for 2023/24, which provides the same level of assistance and protection to claimants as the current scheme, will continue to be contained within available resources.

DISREGARDING OF PRESCRIBED WAR DISABLEMENT PENSIONS OR WAR WIDOW'S PENSIONS IN THE CALCULATION OF HOUSING BENEFIT AND COUNCIL TAX SUPPORT

35. In The Housing Benefit Regulations 2006 prescribe a standard weekly disregard of £10 from the incomes prescribed in the Housing Benefit (War Pensions Disregards) Regulations 2007. However, any residual balance from these incomes is included in the aggregated assessment of means in an applicant's entitlement, thereby affecting their total award.

36. The Social Security Administration Act 1992 (SSAA) entitles Local Authorities to locally design adjustments to the scheme to satisfy the needs of their community but with a percentage of the cost for such a scheme falling on the authorities' own finances.

37. The Council has operated a local scheme that disregards 100% of this income since the introduction of the SSAA and has copied this scheme design to its Local Council Tax Support Scheme upon its introduction in 2013. This ensures financial support for low-income households who are in receipt of a disablement or widow's/widower's pension payable as a consequence of service as members of the armed forces.

38. Subsidy arrangements mean that where a local amendment to the scheme is in operation, the local authority will only be compensated with 75% of any expenditure incurred up to a maximum of 0.2% of the total subsidy claimed in the relevant year.

39. In 2021-22, the full cost to the Council was £1,777 as £5,331 of the total expenditure of £7,108 was met through subsidy.

40. In exercising the function of administering the Housing Benefit scheme, local authorities are subject to external reporting on the efficacy of their processes and procedures. The Housing Benefit Assurance Process (HBAP) specifies the requirement for the appointment of reporting accountants; theirs and the local authorities' responsibilities; and the potential consequences arising from the HBAP report.

41. Ernst & Young were appointed as the Council's reporting accountant in August 2022 and produced their first HBAP report on our Benefit Service in January 2023 in respect of our performance for the 2021-22 subsidy year.

42. The need to have a resolution in respect of a local scheme available was identified in this report as a matter for attention. Prior to this, the Benefits Service had relied upon the resolution made at the original lying down of legislation and had not reviewed or renewed the scheme formally in some considerable time.

43. However, the financial impact of the scheme is routinely taken into account when preparing financial estimates for the Benefits Service, as it is built into the Housing Benefit subsidy regime. It therefore forms part of the financial planning for the service and formulising the scheme now will not make any additional financial demand on the Council.

44. The latest estimate was produced in August 2022 and indicates that from a total spend of £7,680, £5,760 will be subsidised, with the total cost to the Council being £1,920.

RISK ASSESSMENT

45. While all spending plans can be met from within existing resources including use of reserves, growing financial pressures increase the risk that spending plans exceed desirable levels.

46. With the Fair Funding review being delayed until the 2025/26 financial year the future funding support for Fareham remains uncertain. Any changes as a result of the review and the Business Rate Reset are very likely to affect the Council's finances and it remains an important part of the overall Medium Term Finance Strategy to retain sufficient balances to cater for the unexpected in these uncertain times.

47. The council will continue to explore opportunities to increase income sources for the Council as well as review other opportunity plans in order that balanced budgets can be made in future years.

CONCLUSION

48. In making a recommendation to Council on the council tax for 2023/24, the Executive has evaluated the Council's overall financial position in relation to existing commitments, the level of resources(including reserves) and the projected financial position in the future; not just the overall budget position for next year.

Enquiries: For further information on this report please contact Neil Wood. (Ext 4506)

APPENDIX A

ACTUAL REVENUE BUDGET

	Budget 2022/23 £	Revised 2022/23 £	Budget 2023/24 £
Committees			
Licensing and Regulatory Affairs	574,400	639,200	540,400
Planning	439,500	729,400	694,300
Executive - Portfolio Budgets			
- Leisure and Community	-17,500	43,600	-41,200
- Housing	2,083,000	2,370,900	2,270,800
- Planning and Development	1,636,600	1,853,500	1,999,600
- Policy and Resources	44,400	286,000	222,500
- Health and Public Protection	615,700	803,400	765,800
- Streetscene	4,944,100	4,832,800	5,160,600
Accounting Adjustments in Service Portfolios	3,147,200	4,101,900	4,101,900
SERVICE BUDGETS	13,467,400	15,660,700	15,714,700
Capital Charges	-3,385,900	-4,320,000	-4,320,000
Direct Revenue Funding	1,475,000	1,475,000	1,125,000
Minimum Revenue Position	1,490,900	1,497,900	1,490,900
Bad Debt Provision	150,000	150,000	0
Interest on Balances	-678,800	-828,000	-612,000
Portchester Crematorium Contribution	-170,000	-170,000	-80,000
New Homes Bonus	-108,800	-108,800	-17,900
Contribution from Reserves	-1,451,800	-2,369,500	-1,403,600
OTHER BUDGETS	-2,679,400	-4,673,400	-3,817,600
NET BUDGET	10,788,000	10,987,300	11,897,100

	Budget 2022/23 £	Revised 2022/23 £	Budget 2023/24 £
NET BUDGET	**10,788,000**	**10,987,300**	**11,897,100**
EXTERNAL SUPPORT			
Services Grants	219,500	221,800	340,000
Business Rates	2,897,762	3,094,762	3,591,745
	3,117,262	**3,316,562**	**3,931,745**
COLLECTION FUND BALANCE	39,398	39,398	0
AMOUNT DUE FROM COUNCIL TAX PAYERS	**7,710,136**	**7,710,136**	**7,965,355**
COUNCIL TAX BASE	**44,002.6**		**44,139.4**
COUNCIL TAX PER BAND D PROPERTY	**£175.22**		**£180.46**
CASH INCREASE	**£5.00**		**£5.24**
PERCENTAGE INCREASE	**3.22%**		**2.99%**

FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
06 February 2023

Portfolio:	Policy and Resources
Subject:	**Housing Revenue Account 2023/24**
Report of:	Deputy Chief Executive Officer
Corporate Priorities:	Providing Housing Choices

Purpose:
This report seeks Executive approval for the revised budget for the Housing Revenue Account for 2022/23, the base budgets and rent increases for 2023/24.

Executive summary:
The Executive recommended, and the Council approved, in February 2022, the base budget and rent increase for 2022/23, for Housing Revenue Account (HRA) services.

This report sets out some revisions to the Housing Revenue Account revised budget for 2022/23 and base budget for 2023/24 along with the capital programme and financing for the years 2022/23 to 2026/27. The report examines the issues affecting the Housing Revenue Account including rent changes with effect from 1 April 2023.

Council budgets are susceptible to change in the level of expenditure and income caused by factors inside and outside the Council's control. A risk assessment has been carried out to indicate the effect on housing balances of changes in the level of expenditure and income. This can be used to estimate the account balances needed to provide a prudent level of reserves and a working balance.

Recommendation/Recommended Option:
It is recommended that the Executive approves and recommends to the meeting of the Council to be held on 24 February 2023 that:

(a) rents be approved for Council Dwellings as set out in paragraph 21 with effect from 1 April 2023;

(b) rents for Council garages be increased by 7% with effect from 1 April 2023;

(c) the revised budget for 2022/23 be approved; and

(d) the base budget for 2023/24 be approved.

Reason:
To allow the Council to approve the Housing Revenue Account budgets for 2023/24.

Cost of proposals:
As detailed in the report.

Appendices:
A: Capital Programme and Financing
B: Examples of Rent
C: Fees and Charges
D: Detailed Revenue Budgets

Background papers:

Reference papers:

(a) Executive 7 February 2022 – Housing Revenue Account 2022/23

(b) Executive 5 September 2022 – General Fund and Housing Revenue Account Outturn 2021/22

(c) Executive 9 January 2023 – Finance Strategy, Capital Programme, Revenue Budget and Council Tax – Appendix A Medium Term Finance Strategy

(d) Executive 7 March 2022 -Assheton Court redevelopment

(e) Executive 9 January 2023 – Fareham Housing Development of Ophelia Court, Montefiore Drive, Park Gate

(f) The Direction on the Rent Standard 2023

(g) Policy Statement on rents for social housing

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	06 February 2023
Subject:	Housing Revenue Account 2023/24
Briefing by:	Deputy Chief Executive Officer
Portfolio:	Policy and Resources

INTRODUCTION

1. This report brings together the revenue and capital spending plans for the Housing Revenue Account for 2022/23 and 2023/24 for the Executive to consider. On 9 January 2023, the Executive approved the Council's Finance Strategy for 2023/24 and later years. The budget guidelines contained within the Strategy have been used as a basis for the Housing Revenue Account (HRA) spending plans along with the Direction on the Rent Standard 2023 and the Policy Statement on rents for social housing from 1 April 2023.

2. Together these have informed revisions to the 2023/24 revenue and capital budgets and those for future financial years as part of Business Planning for the HRA

CAPITAL PROGRAMME

3. The five-year capital programme has been updated and is summarised in the following table. More details of the capital schemes and its financing can be found in Appendix A.

Year	£'000
2022/23	7,292
2023/24	5,706
2024/25	4,351
2025/26	3,990
2026/27	3,800
Total	**25,139**

4. The capital programme was included in the Capital Strategy to be presented for approval at the 6 February 2023 Executive.

5. During the current financial year, the major schemes of 2 new social rent houses at Queens Road, Fareham; 16 new sheltered housing flats at Station Road, Portchester; and for 11 houses for Shared Ownership at Stubbington Lane, Stubbington; are underway with completion due in Spring 2023.

6. A tender exercise has been completed for nine new affordable shared ownership flats on the former Coldeast Scout Hut site on Montefiore Drive, with work anticipated to start on site in Spring 2023. On 9 January the Executive approved a report updating the funding arrangements to deliver the scheme and the process toward the appointment of contractors.

7. Technical work is at an advanced stage for a new house at both Crossfell Walk and Bellfield, with tender exercises anticipated for both schemes in early 2023.

8. On 7 March 2022 a report was presented to the Executive on the funding arrangements for the redevelopment of Assheton Court in Portchester, including the demolition of the existing building and a new building comprising of up to 60No. sheltered housing apartments. Technical work has continued on this scheme, with a full planning application being submitted and approved on 14 December 2022. Detailed technical designs will now be produced by the Architect/Engineers. An Employers Agent will be appointed, detailed requirements for the build identified and, when appropriate, the full contractor tender process undertaken. Depending on the availability of potential contractors and the tender process outcomes, construction could start in Summer 2023.

9. There are currently two further development sites as set out in the table below. These have been reported to the Executive and approved in principle for further feasibility and preliminary actions to be undertaken before final schemes and the appropriate funding sources are presented for approval.

Site
Wynton Way (Fareham North West)
Menin House regeneration (Fareham North West)

10. The financing of the capital programme is from the Major Repairs Reserve, Housing Capital Receipts, Revenue Contributions to Capital Outlay, the Capital Housing Development Fund and 1-4-1 capital receipts from Right to Buy sales and borrowing. The most appropriate form of borrowing will be established by the Council's Finance Team in consultation with the Deputy Chief Executive Officer in order to fund the development schemes at Stubbington Lane, Station Road, the former Scout Hut site, Montefiore Drive, Park Gate and Assheton Court.

11. In addition to these internal resources, grant bids of £484,000 have been approved by Homes England in respect of the Stubbington Lane development (£44,000 per shared ownership property) and £172,000 (£86,000 per social rent property) in respect of the Queens Road development. A grant bid for the 9 flats for Shared Ownership flats at the former Coldeast Scout Hut site on Montefiore Drive is in the process of being prepared and will be submitted at the earliest opportunity.

12. Future developed design reports will detail estimated cost and funding arrangements along with the process toward the appointment of an appropriate contractor. New build Fareham Housing homes could be funded from a combination of the following: -

   a) Capital Development Fund
   b) Right to Buy initial receipts and Right to Buy 1-4-1 receipts;
   c) Other Housing Capital receipts (not combined with Right to Buy 1-4-1 receipts)
   d) Section 106 monies for the purpose of affordable housing provision; (not combined with Right to Buy 1-4-1 receipts)
   e) Homes England grant funding (not combined with Right to Buy 1-4-1 receipts); and/or

f) Additional borrowing on the Housing Revenue Account.

13. Although the opportunity for borrowing to enable future development is positive there needs to be caution highlighted. Any additional debt will need to be serviced without undermining the financial stability of the Council's HRA. Careful consideration of the borrowing implications along with flexibility in how the various funding sources are used will be required.

REVENUE BUDGETS

14. The following table summarises the Housing Revenue Account base and revised budgets for 2022/23, and the base budget for 2023/24. A more detailed breakdown is provided in Appendix D.

HOUSING REVENUE ACCOUNT	**Base Budget 2022/23 £'000**	**Revised Budget 2022/23 £'000**	**Base Budget 2023/24 £'000**
Income	-12,983	-13,374	-14,228
Tenancy Management & Running Costs	3,825	4,472	4,730
Net Interest	1,697	1,630	1,679
Transfer to Debt Repayment Fund	1,140	1,025	1,025
	-6,321	**-6,247**	**-6,794**
Revenue Repairs Expenditure	2,818	3,296	3,444
Depreciation set aside into the Major Repairs Reserve	2,826	2,951	3,050
Revenue Contribution to Capital Programme	400	0	300
Transfer to(-)/from HRA Reserve	**277**	**0**	**0**

15. The income budget has been increased to reflect proposed increases in rent and service charges. Changes in circumstances and financial stability for some of our tenants continue to impact on rent being paid, and with the impact of the cost of living crisis arrears are increasing through the current financial year. The housing Rent Recovery Officer continues to work closely with customers and reports regularly from the housing management system which will inform an anticipated increase in the bad debt provision for the current financial year. Service Charge actuals have been completed for 2021/22.

16. Within Tenancy Management and Running Costs increases have been made for employee costs and for communal heating lighting and cleaning costs.

17. The property repairs and maintenance area has seen a further increase in cost and demand. A budget increase for this area is proposed to reflect the employment costs of our building maintenance team as well as higher costs that our suppliers face and that are inevitably passed on to us.

18. The Revenue Contribution to Capital programme budget has been reduced as we do not anticipate former council homes being bought back in the current financial year.

19. The proposed budgets also include a clear set aside of reserves to repay the £49 million housing debt taken on in 2012 when the government changed the national subsidy scheme to a self-financing scheme. These loans become repayable in 30 to 39 years.

20. A summary of all the reserves projected to the end of 2022/23 is set out below:

Reserve	Purpose of Reserve	2021/22 Closing Balance £'000	2022/23 Transfers In £'000	2022/23 Transfers Out £'000	2022/23 Closing Balance £'000
HRA Revenue Reserve	To fund unexpected operating costs	1,210	0	0	1,210
Exceptional Expenditure Reserve	To fund any exceptional demands upon expenditure	1,500	0	0	1,500
Debt Repayment Fund	To repay debt	5,700	1,025	0	6,725
Leaseholder Reserve	To fund major repairs on blocks containing leasehold properties	484	0	0	484
Total Revenue Reserves		**8,894**	**1,025**	**0**	**9,919**
Major Repairs Reserve	To fund capital expenditure on HRA assets	1,993	2,950	3,000	1,943
Housing Capital Development Fund	To fund new developments	545	0	519	26
1:4:1 Receipts	To fund 40% of costs of new acquisitions and Station Road development	1,879	450	612	1,717
Total Reserves		**13,311**	**3,906**	**3,612**	**16,305**

RENTS

21. In November 2022 as part of the Government Autumn Statement it was announced that social housing rent increases would be capped at 7% for 2023/24. A new Direction on the rent standard 2023 has been issued along with an updated Policy statement on rents for social housing from April 2023. This is currently a temporary cap applying from the 1 April 2023 to 31 March 2024. This followed a consultation exercise on limiting rent increases in 2023/24 as the previous Policy Statement on Rents for Social Housing from 1 April 2020 onwards allowed increases of up to CPI + 1 % (using the September rate) amounting to 11.1%. The lower 7% cap balances affordability for tenants with rapidly rising cost and capacity pressures being experienced in the social housing sector and our own service areas.

22. Rents for Council garages are not covered by the Government's Direction applying to dwellings, but a similar principle is applied. It is proposed that garage rents for 2023/24 increase by 95p per week in line with that of rent increases.

23. Examples of proposed rents, along with a comparison of what the levels would be at 11.1% (CPI+1) can be seen in Appendix B.

FEES AND CHARGES

24. The current fees and charges for the HRA and the charges for 2023/24, approved at the 9 January 2023 Executive, are set out in Appendix C.

25. The statutory charge is subject to the control and advice of Government. The current level of charge has been set at the maximum allowed.

RISK ASSESSMENT

26. The following list of potential risks indicates that it is essential to preserve the account

balance held for the Housing Revenue Account. Reserves are held so the Council can:

- Continue to manage and maintain homes
- Improve and redevelop estates
- Cover any unexpected expenditure
- Take advantage of new opportunities to meet housing needs
- Repay the debt
- Meet the challenges of any change in Government policy

27. Key risks include future changes to the rent policy, an increase in arrears, other increases in void properties and in the cost of repairs, and in utility costs. In particular, if the Government amend their current rent policy so that rents will reduce post 2023/24, this will put further pressure on the HRA finances.

Examples of Potential and Actual Changes	**Effect on Expenditure in Year £'000**	**Effect on Income in Year £'000**
Change in rent policy to decrease rents by 1% beyond 2023		125
Loss of income if void rate rises to 5% from 4%		125
Increase of 10% on employees, and supplies and service costs	464	
Increase of 10% in the depreciation charge	300	
Increase on rent arrears by 10%		80
Increase of 20% in cost of responsive repairs	700	

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4589)

APPENDIX A

CAPITAL PROGRAMME AND FINANCING

Housing Capital Programme	2022/23	2023/24	2024/25	2025/26	2026/27
Improvements to Existing Stock	**£**	**£**	**£**	**£**	**£**
Improvements	1,525,000	1,575,000	1,600,000	1,650,000	1,700,000
Voids	1,200,000	1,200,000	1,220,000	1,220,000	1,200,000
Modifications	275,000	275,000	280,000	280,000	300,000
Civica – Asset Management	15,000				
Vehicles	40,000	100,000	70,000	70,000	100,000
Acquisitions and New Builds					
Acquisitions	283,000	500,000	500,000	500,000	500,000
New Build – Station Road	1,531,000	700,000			
New Build – Assheton Court	100,000				
New Build – Stubbington Lane	1,679,000	300,000			
New Build – Queens Road	569,000	75,000			
New Build – Crossfell Walk	5,000	250,000			
New Build - 51 Bellfield	20,000				
New Build – Coldeast Scout Hut	50,000	731,000	681,000	270,000	
TOTAL CAPITAL EXPENDITURE	**7,292,000**	**5,706,000**	**4,351,000**	**3,990,000**	**3,800,000**
Funded by:					
Improvements to Existing Stock					
Major Repairs Reserve	-3,000,000	-3,050,000	-3,100,000	-3,150,000	-3,200,000
Other Assets					
Civica Asset Management	-15,000				
Vehicles	-40,000				
Acquisitions and New Builds					
RCCO	-100,000	-300,000	-300,000	-300,000	-300,000
1-4-1 Capital Receipts	-612,000	-480,000	-200,000	-200,000	-200,000
Capital Receipts	-248,000	-250,000			
Capital Development Fund	-519,000	0			
Homes England Grants	-239,000	-514,000	-37,000		
Other Grants and Contributions	-840,000	-32,000			
Borrowing	-1,679,000	-980,000	-644,000	-270000	
TOTAL FUNDING	**-7,292,000**	**-5,706,000**	**-4,351,000**	**-3,990,000**	**-3,800,000**

APPENDIX B

HRA EXAMPLES OF RENT

	Property Type	2022/23 Actual Rent £	2023/24 Proposed Rent £	Change per week £	Change per week %
Rose Court	1 Bed Flat	88.33	94.51	6.18	7
Grebe Close	2 Bed Bungalow	114.73	122.76	8.03	7
Collingwood Court	1 Bed Flat	107.82	115.36	7.55	7
Foxbury Grove	2 Bed Flat	96.22	102.96	6.74	7
Garden Court	1 Bed Maisonette	86.19	82.23	6.03	7
Sicily House	2 Bed Maisonette	93.35	99.88	6.53	7
Fairfield Avenue	3 Bed House	111.81	119.64	7.83	7
Churchill Close	3 Bed House (shared owner)	97.47	104.29	6.82	7
Jubilee Court	4 Bed House	127.77	136.71	8.94	7
Average for total stock		97.58	104.41	6.83	7
Garages		13.70	14.65	0.95	7

	Property Type	2022/23 Actual Rent £	2023/24 Proposed Rent £	Change per week £	Change per week %
Rose Court	1 Bed Flat	88.33	98.13	9.80	11.1
Grebe Close	2 Bed Bungalow	114.73	127.46	12.73	11.1
Collingwood Court	1 Bed Flat	107.82	119.78	11.97	11.1
Foxbury Grove	2 Bed Flat	96.22	106.90	10.68	11.1
Garden Court	1 Bed Maisonette	86.19	95.76	9.57	11.1
Sicily House	2 Bed Maisonette	93.35	103.71	10.36	11.1
Fairfield Avenue	3 Bed House	111.81	124.23	12.41	11.1
Churchill Close	3 Bed House (shared owner)	97.47	108.29	10.82	11.1
Jubilee Court	4 Bed House	127.77	141.96	14.18	11.1
Average for total stock		97.58	108.41	10.83	11.1
Garages		13.70	15.22	1.52	11.1

APPENDIX C

HOUSING FEES & CHARGES

	Notes	Fee 2022/23 £	Fee 2023/24 £	% Increase
Sales of Council Houses				
Maximum legal and administration fees in connection with granting a service charge loan	Statutory Charge	100.00	100.00	NIL
Recharge of Officer time in agreeing any consent to freeholders	Fee per occurrence	100.00	110.00	10.0
Repairs to Council Houses				
Abortive visit by Officer, Surveyor or Tradesman	Charge per visit	50.00	55.00	10.0
Rechargeable works	These will be assessed individually at the time the work is carried out.			
Sheltered Accommodation for the Elderly – Guest Room Charges				
Single occupancy per night	Inclusive of VAT	10.40	15.00	44.2
Per couple per night	Inclusive of VAT	15.60	20.00	28.2
Collingwood Court per room	Inclusive of VAT	26.00	30.00	15.3
Sylvan Court per room	Inclusive of VAT	26.00	30.00	15.3
Sheltered Accommodation for the Elderly – Other Charges				
Keys – Key Keys – Fob	Inclusive of VAT	5.40 8.70	5.90 9.50	9.3 9.2
Wash Cards (where applicable) Wash Dry	Inclusive of VAT	0.70 0.60	0.80 0.70	14.2 16.6

APPENDIX D

DETAILED REVENUE BUDGET

	Base 2022/23 £'000s	Revised 2022/23 £'000s	Base 2023/24 £'000s
Income			
Rents - Dwellings	-11,332	-11,712	-12,475
Rents - Garages	-348	-362	-388
Rents - Other	-20	-20	-21
Service Charges (Wardens, extra assistance, heating)	-632	-650	-687
Cleaning	-185	-185	-198
Grounds Maintenance	-126	-128	-137
Other Fees and Charges	-61	-37	-37
Leaseholder Service Charges & Insurance	-279	-280	-285
	-12,983	**-13,374**	**-14,228**
Expenditure			
Tenancy Management and Running Costs			
General Administrative Expenses	2,047	2,492	2,581
Corporate & Democratic Core	76	82	90
Corporate Management	88	69	75
Unapportioned Overhead	20	0	0
Communal Heating Services	145	247	350
Communal Lighting	55	84	88
Rents, Rates & Other Taxes	186	186	200
Communal Cleaning	242	247	272
Grounds Maintenance	267	267	280
Sheltered Housing Service	564	583	604
Bad Debts Provision	50	150	125
Bad Debts Written off	50	35	35
Debt Management Expenses	35	30	30
Sub-total of management costs	3,825	4,472	4,730
Long Term Debt Management			
Interest Payable	1,817	1,830	1,879
Interest Earned on Internal Balances	-120	-200	-200
Transfer to Debt Repayment Fund	1,140	1,025	1,025
Property Repairs and Maintenance			
Revenue Repairs Expenditure	2,818	3,296	3,444
Depreciation	2,826	2,951	3,050
Revenue Contribution to Capital Programme	937	519	300
Contribution from Capital Development Fund	-537	-519	0
Surplus(-)/Deficit for Year	-277	0	0

FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
06 February 2023

Portfolio:	Policy and Resources
Subject:	**Capital Programme and Capital Strategy 2023/24**
Report of:	Deputy Chief Executive Officer
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:
This report considers the Capital Strategy for 2023/24, prior to its submission to the Council for approval.

Executive summary:
Regulations require the Council to prepare and formally approve a Capital Strategy. The document for 2023/24 is attached as Appendix A to this report for consideration by the Executive before being submitted to Council for approval.

The Capital Strategy gives a high-level overview of how capital expenditure, capital financing, asset management and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

The main highlights in the Capital Strategy are:

i) The level of capital expenditure estimated for 2023/24 is £24.5 million. The current estimate is that £3.1 million of this will be met by new borrowing.

ii) A new prudential indicator for net income from commercial investments to net revenue stream has been added.

iii) A new section about the Daedalus Finance Strategy has been added.

iv) A high-level review of future funding requirements has identified a capital funding requirement of £229 million.

v) The Council's investment property portfolio has an estimated value of £68.3 million.

A separate report proposing the Treasury Management Strategy and Investment Strategy for 2023/24 will be presented at the February meeting of the Executive.

Recommendation:
It is recommended that the Executive:

(a) endorses the draft Capital Strategy for 2023/24, attached as Appendix A to this report;

(b) approves the capital programme for the period 2022/23 to 2026/27, amounting to £62.9 million as set out in Annex 1 of the Capital Strategy; and

(c) agrees to submit the Capital Strategy for 2023/24 to Council for approval.

Reason:
To allow the Council to approve the Capital Strategy in accordance with the Prudential Code.

Cost of proposals:
As detailed in the report.

Appendices: **A:** Capital Strategy 2023/24 (including 5-year capital programme as Annex 1)

Background papers: None

Reference papers: CIPFA Prudential Code 2021
Arlingclose Capital Strategy 2023-24 Template

APPENDIX A

CAPITAL STRATEGY 2023/24

CONTENTS

INTRODUCTION

WHAT IS THE CAPITAL STRATEGY?

1. The Capital Strategy has been developed to meet the requirements of the CIPFA Prudential Code.

2. It gives a high-level overview of how **capital expenditure, capital financing, asset management 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.

3. Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future.

4. The Capital Strategy covers:

Capital Expenditure	• Estimates of Capital Expenditure • Major Capital Schemes • Prioritisation
Capital Financing	• External Sources • Own Resouces • Debt and MRP
Asset Management	• Asset Management • Asset Disposals
Treasury Management	• Borrowing Strategy • Investment Strategy • Commercial Activities

5. The capital strategy complements other Council strategies, including those in the diagram below:

PRUDENTIAL INDICATORS

6. The objectives of the CIPFA Prudential Code aim to ensure that capital investment plans are **affordable, prudent and sustainable**, and that treasury decisions are taken in accordance with good professional practice.

7. To achieve these objectives, five prudential indicators are included in the capital strategy:

- Prudential Indicator 1 - Estimates of capital expenditure and financing
- Prudential Indicator 2 - The Council's borrowing need
- Prudential Indicator 3 - Gross debt and the capital financing requirement
- Prudential Indicator 4 - Limits to borrowing activity
- Prudential Indicator 5 - Net income from commercial investments to net revenue stream
- Prudential Indicator 6 - Proportion of financing costs to net revenue stream

CAPITAL EXPENDITURE

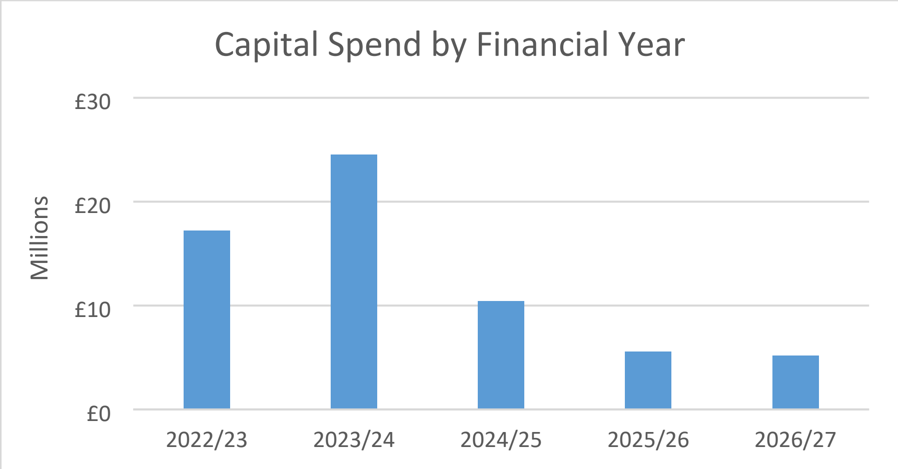
8. Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this also includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

ESTIMATES OF CAPITAL EXPENDITURE

9. The Council agrees a rolling five-year capital programme each year consistent with the Medium-Term Finance Strategy and the resources available, along with any impact on the revenue budgets.

10. The capital programme for the period 2022/23 to 2026/27 has been updated to take account of re-phased schemes and newly approved schemes such as town centre property acquisitions for housing and the review of community buildings.

11. Total capital expenditure is one of the risk indicators required by the Prudential Code. The Council is planning capital expenditure of £62.9 million in the 5-year capital programme as summarised below (detailed schemes are in **Annex 1**):



Prudential Indicator 1 - Estimates of Capital Expenditure

Capital Expenditure	**2022/23 Revised £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**	**Total £'000**
Health and Public Protection	9	0	0	0	0	9
Streetscene	37	50	50	50	189	376
Leisure and Community	5,473	9,953	1,817	329	200	17,772
Housing	1,889	500	500	500	573	3,962
Planning and Development	118	133	195	0	0	446
Policy and Resources	2,407	8,192	3,505	700	400	15,204
Total General Fund	**9,933**	**18,828**	**6,067**	**1,579**	**1,362**	**37,769**
HRA	7,292	5,706	4,351	3,990	3,800	25,139
Total Expenditure	**17,225**	**24,534**	**10,418**	**5,569**	**5,162**	**62,908**

MAJOR CAPITAL SCHEMES

12. The major General Fund capital schemes include Fareham Live, schemes at Solent Airport at Daedalus and Osborn Road Multi-Storey Car Park.

13. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes new housing developments with 16 new sheltered housing flats at Station Road and 11 houses for Shared Ownership properties at Stubbington Lane.

14. Major schemes over £1 million are summarised in the table below:

Major Schemes	£'000
Fareham Live	16,015
HRA Improvements to Existing Stock	15,515
HRA New Builds	6,961
Solent Airport at Daedalus	5,323
Civic Offices Improvements	3,681
Disabled Facilities Grants	3,650
Asset Replacement Programme (ICT, Vehicles etc.)	3,227
HRA Stock Acquisitions	2,283
Osborn Road Multi-Storey Car Park	1,912
166 Southampton Road Repairs	1,194

GOVERNANCE AND PRIORITIES

15. Capital programme expenditure is monitored through monthly officer monitoring reports and half-yearly and annual outturn reports to the Executive.

16. All new potential capital schemes will only be considered if they make a clear contribution to the Council's objectives and priority actions or support the Council's Asset Management Plan.

17. The following factors need to be considered before a decision is made to include a new scheme in the capital programme:

    - On-going operational costs associated with the scheme;
    - Whole life costing implications of the scheme;
    - Cost of servicing the debt if the scheme is financed by borrowing;
    - Loss of investment interest if internal resources are used.

18. Where new capital schemes are included in the capital programme there will be a need to ensure that the necessary resources are in place to meet the full capital costs and the on-going revenue costs.

19. Efforts will be made to secure external (non-borrowing) sources of funding capital schemes. Internal capital resources will only be released to fund schemes once external sources of funding (such as developers' contributions, lottery grants, etc.) have been explored and rejected.

20. Capital schemes will normally be financed by use of capital reserves or external contributions. Borrowing will only be considered where there is a sound economic business case (e.g. for spend to save schemes) whereby borrowing costs are wholly offset by long term net revenue income or savings.

21. Resources allocated to particular capital projects but subsequently not required are returned to meet future corporate priorities rather than be retained for use by that service.

22. To ensure the Council is able to meet the financial challenges ahead, priority is given to the following:
    - Corporate priorities;
    - Providing for future liabilities;
    - Maintaining and protecting public assets;
    - Investing in the future by ensuring assets are sustainable, encourage economic growth and regeneration, and meet the needs of the community.

23. This is achieved by:
    - Building up finances for the future, such as the allocation of windfall income to the Capital Fund Account;
    - Maximising external funding opportunities to reduce the reliance on internal resources;
    - Effective project planning and management to ensure schemes are completed on time and within budget.

SOLENT AIRPORT AND DAEDALUS

24. Solent Airport and the Daedalus site is a strategic asset for the Council, and as such will require significant capital investment over time. It also has the potential to generate revenue for the Council, create job opportunities for the borough and the aspiration is for the airport operations (airside and non-airside combined) to be financially self-sustaining.

25. The significance of Daedalus is such that it warrants its own financial operating framework, and the Daedalus Finance Strategy was presented to the Executive in March 2022. The strategy establishes a financial framework for the operation and investment at Solent Airport and the wider Daedalus site, including the approach to capital receipts and its use as a corporate capital resource.

26. Members have financial updates comparing figures against the strategy position at regular meetings of the Daedalus Scrutiny Panel. The Scrutiny Panel will also consider all activities and developments at the site.

ENVIRONMENTAL SUSTAINABILITY

27. At the June 2021 Executive, members adopted the Council's Climate Change Action Plan detailing the actions the Council is taking to reach carbon neutrality, under the categories, Eliminate, Reduce and Offset.

28. The annual review of the action plan, presented to the July 2022 Climate Change Scrutiny Panel, highlights areas that will require future capital funding for projects such as:
    - Energy efficiency improvements to Council properties and housing stock
    - Electric vehicle charging points at the Depot
    - Replacement vans and smaller vehicles that have exceeded their working lifespan with electric versions
    - Replacement of petrol-powered tools e.g., lawnmowers that have exceeded their natural lifespans with electric versions
    - A potential energy generation site on Council land

29. External sources of funding will be sought where possible to contribute towards priority environmentally sustainable projects and will be an area of spending pressure in the future.

CAPITAL FINANCING

30. 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 and leases).

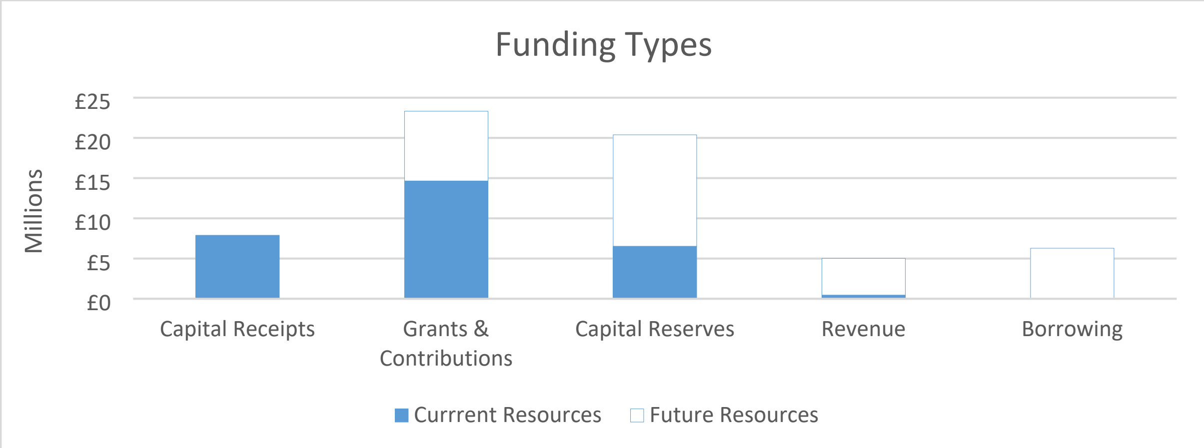
31. The planned financing of the above expenditure is as follows:

Prudential Indicator 1 - Estimates of Financing

Capital Financing	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	Total £'000
Capital Receipts	1,349	5,674	200	400	273	7,896
Grants & Contributions	8,543	10,770	2,240	879	889	23,321
Capital Reserves	4,024	3,890	6,122	3,150	3,200	20,386
Revenue	1,177	1,103	1,070	870	800	5,020
Borrowing	2,132	3,097	786	270	0	6,285
Total Financing	**17,225**	**24,534**	**10,418**	**5,569**	**5,162**	**62,908**

32. Total resources of **£67.7 million** are estimated to be available over the life of the capital programme and therefore there should be a surplus of approximately £4.8 million in 2026/27.

33. The chart below shows the different funding types split between current and future resources. Grants and contributions are the largest funding source financing 37% of the programme.



34. The forecast surplus of resources is limited and relies partly on resources that have not yet been secured (such as future capital receipts and grants as well as continued revenue contributions towards capital investment), totalling £33 million.

35. In the event that these resources do not materialise, other funding options will need to be investigated including borrowing, reliance on external funding or the programme scaled back.

36. It must also be borne in mind that the implications of some of the Council's priority actions, such as town centre regeneration, and emerging capital spending pressures have not yet been quantified. Costs associated with approved schemes also remain provisional until tenders have been received.

37. For example, since the Airport Investment Plan was approved by the Executive last March, consultants have been appointed to progress the Aeronautical Ground Lighting (AGL) installation, with the planning application about to be submitted, and RCA Ltd have been appointed to deliver the Performance Based Navigation system (PBN).

38. However, with changes to the AGL scheme required by the Civil Aviation Authority, the approved capital budget is unlikely to be sufficient. In addition, safety improvements are required to the airport control tower and two replacement vehicles are required. As such, the Airport Investment Plan is under review and revised proposals will be brought forward to the Executive in April.

39. Spending pressures including repair and refurbishment, or replacement works to Council assets (for example, community and leisure facilities, public conveniences, car parks) have also yet to be added to the capital programme.

40. The following asset management reviews are currently taking place and will be presented to the Executive in the coming months:

- Five-year asset management plan for Streetscene public buildings and infrastructure
- Civic Offices asset management plan
- Vehicle replacement programme

DEBT AND MRP

41. 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 by putting aside revenue resources to repay debt 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.

42. Planned MRP and use of capital receipts are as follows:

	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Minimum Revenue Provision	1,498	1,538	1,618	1,700	1,745
Future Capital Receipts	3,587	0	1,919	0	0

43. Borrowing costs (MRP and interest charges) for schemes funded by debt will be covered by revenue generating assets.

44. The MRP budget provision reflects the capital costs relating to commercial property purchases, and construction works at Solent Airport at Daedalus including the Innovation Centre extension and new hangars.

MRP Policy Statement

45. The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. The main policy adopted is that MRP will be determined by charging the expenditure over the **expected useful life** of the relevant assets on an **annuity basis** starting in the year after the asset becomes operational. This calculation will be reviewed on a case-by-case basis depending on the circumstances and with a view to minimising the impact on the council tax payer.

46. Where expenditure is on an asset which will be held on a short-term basis (up to 5 years), no MRP will be charged. However, the capital receipt generated by the sale of the asset will be used to repay the debt instead.

47. No MRP will be charged in respect of assets held within the HRA, in accordance with MHCLG Guidance. Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25.

48. The Council's full MRP statement is available in the Council's Treasury Management Strategy.

Capital Financing Requirement

49. The Council's cumulative outstanding amount of debt finance is referred to as the **Capital Financing Requirement (CFR)** and is another prudential indicator. The CFR increases with new debt-financed capital expenditure and reduces when MRP and capital receipts are used to replace debt.

50. The CFR indicator is a measure of the Council's underlying need to borrow for a capital purpose taken from the balance sheet. This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits.

51. The CFR is expected to increase by £1.7 million during 2023/24 mainly due to debt funded capital expenditure at Osborn Road Multi-Storey Car Park and housing developments at Station Road, Stubbington Lane and Coldeast Scout Hut, offset partly by MRP. The Council's estimated CFR is as follows:

Prudential Indicator 2 - The Council's borrowing need

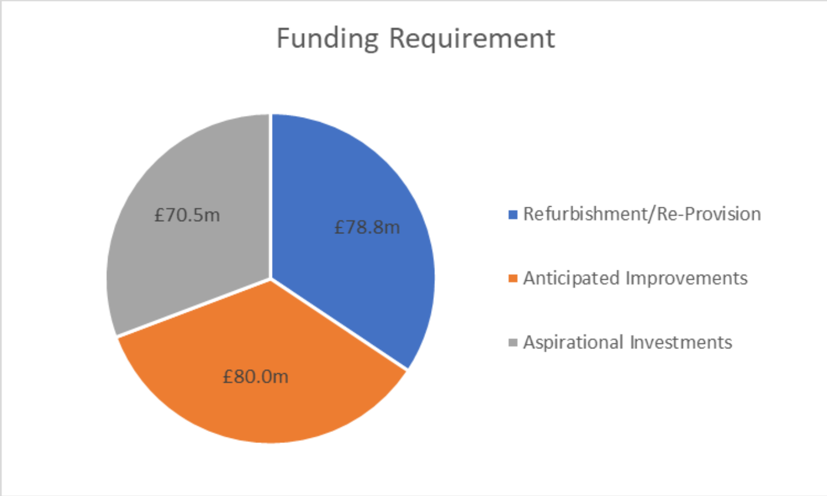
£'000	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
General Fund	55,513	56,192	54,716	53,016	51,271
HRA	52,733	53,713	54,357	54,627	54,627
Total CFR	**108,246**	**109,905**	**109,073**	**107,643**	**105,898**

ASSET MANAGEMENT

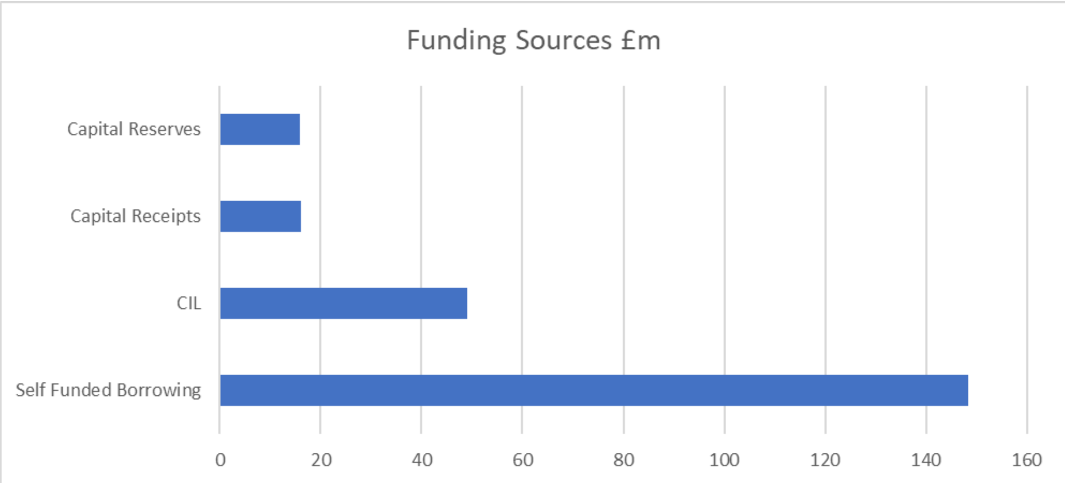
52. One of the Council's corporate priorities is 'a dynamic, prudent and progressive Council' and aims to 'undertake a major review of all Council owned land and buildings to ensure that we are making the best use of our assets'.

FUTURE FUNDING REQUIREMENTS

53. To ensure that capital assets continue to be of long-term use, the Council has undertaken a high-level review of the future funding requirements for its land and buildings, excluding Council dwellings. This review covers a 30-year time frame and has identified a capital funding requirement of **£229 million** for refurbishing/re-provisioning existing assets, improving existing assets and aspirational investments as shown in the chart below:



54. The main funding source is self-funded borrowing supported by capital receipts, capital reserves and the community infrastructure levy, as illustrated in the following graph:



55. The Council will put in place a Council-wide plan which will set out the overall direction and framework for the management of its assets to help deliver the Council's priority actions and service delivery needs, now and in the future.

ASSET DISPOSALS

56. 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.

57. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive capital receipts as follows:

	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Right to Buy Houses	1,000	1,000	1,000	1,000	1,000
Other Housing Receipts	515	16	16	16	16
General Fund Property	10,365	0	0	0	1,919
Total	**11,880**	**1,016**	**1,016**	**1,016**	**2,935**

General Fund Property of £9.5m relates to property and land at Daedalus (2022/23) and Welborne Cottages (2026/27).

TREASURY MANAGEMENT

58. 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.

59. 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.

60. At 31 March 2022, the Council had £53.2 million borrowing and £22.2 million treasury investments.

61. The Treasury Management Strategy and Investment Strategy for 2023/24 will be presented separately at the February meeting of the Executive.

BORROWING STRATEGY

62. The Council's main objective when borrowing is to achieve a low but sufficiently 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 and long-term fixed rate loans where the future cost is known but higher.

63. Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement.

Prudential Indicator 3 - Gross debt and the capital financing requirement

	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Debt at 1 April	53,200	50,200	52,200	51,200	50,200
Capital Financing Requirement (CFR)	108,246	109,905	109,073	107,643	105,898

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

AFFORDABLE BORROWING LIMIT

65. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and a lower "operational boundary" set as a warning level should debt approach the limit.

66. The operational boundary is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. This is the limit beyond which external borrowing is not normally expected to exceed.

67. The authorised limit represents the maximum amount of debt that the Council can legally owe. The limit provides headroom over and above the operational boundary for unusual cash movements.

Prudential Indicator 4 - Limits to Borrowing Activity

	2022/23 Revised £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Operational Boundary	135,000	159,000	170,000	175,000	175,000
Authorised Limit	143,000	167,000	178,000	183,000	183,000

68. Further details on borrowing are in the Council's Treasury Management Strategy.

TREASURY INVESTMENT STRATEGY

69. 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).

70. The Council does not currently have service investments.

Treasury Investment Policy

71. The Council's policy on treasury investments is to prioritise security and liquidity over yield, which 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.

72. Money that will be held for longer terms is invested more widely, currently in property but could also include bonds and shares, to balance the risk of loss against the risk of receiving returns below inflation.

73. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy, and the Council may request its money back at short notice.

74. Further details on treasury investments are set out in the Council's Treasury Management Strategy.

Treasury Investment Risk Management

75. The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses.

Treasury Investment Governance

76. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Deputy Chief Executive Officer and staff, who must act in line with the treasury management strategy approved by Full Council.

77. Reports on treasury management activity are presented to the Executive. The Audit and Governance Committee is responsible for scrutinising treasury management decisions and therefore is presented with the annual Treasury Management Policy for comment, and reports on adherence to this Policy.

COMMERCIAL ACTIVITIES

Commercial Investments Policy

78. With central government financial support for local public services declining, the Council invests in commercial property to secure a financial gain. Total commercial investments that have been purchased in accordance with the Council's Commercial Property Investment Acquisition Strategy are summarised below and are currently valued at **£35.7 million** and expected to generate rental income of £2.3 million during 2023/24.

Property Type	Current Value £'000
Retail	21,745
Commercial (Industrial)	11,730
Other (Healthcare)	2,210
Total	**35,685**

79. The Council's total investment portfolio, shown below, is valued at **£68.3 million** and includes Fareham Shopping Centre, Faretec and industrial sites at Palmerston Business Park and Newgate Lane.

Property Type	Current Value £'000
Retail	34,045
Commercial	23,682
Other	4,388
Office	4,740
Leisure	1,481
Total	**68,336**

Commercial Investments Risk Management

80. With financial return being a key objective, the Council accepts higher risk on commercial investment than with treasury investments. Investing in property is not risk-free, so it is important that any acquisitions reflect the Council's risk appetite in terms of maintaining the capital value of the asset in the long term, and extent to which rental income is guaranteed.

81. The principal risk exposures include vacancies and the resultant loss of income, added costs of holding a vacant property and cost of marketing and re-letting the property.

82. These risks are managed by ensuring:

- funds available for new purchases are disaggregated to limit the overall impact that any single investment would have on the Council's finances;
- there is a mix of property types in the portfolio e.g. retail, industrial, etc.;
- new purchases are only considered with existing tenants of "high quality" and sufficiently long lease terms;
- appropriate checks are carried out to ascertain the tenant's reliability before the investment is made and periodically afterwards;
- other "due diligence" is undertaken to protect the Councils investment as far as possible such as checks on planning conditions, land contamination issues and planning policy issues.

83. The majority of investments will be held for a medium to long term in order to achieve the required return and to justify the cost of the acquisition. However, as part of the investment decision, consideration is also given to the potential ways in which the Council could "exit" from the investment, such as sale to another investor, sale for redevelopment, etc. An investment only proceeds where there is a clear exit strategy, should it be required.

Commercial Investments Governance

84. The Executive approved a Commercial Property Investment Acquisition Strategy on 7th January 2013.

85. The steps taken before a decision to purchase a property are clearly documented and tested via a challenge process involving the Head of Property Services, Deputy Chief Executive Officer and the Executive portfolio holder for Policy Strategy and Finance.

86. Decisions on commercial investments are made by the Executive in line with the criteria outlined in the Commercial Property Investment Acquisition Strategy.

87. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

Prudential Indicator 5 – Net income from commercial investments to net revenue stream

	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total net income from commercial investments £'000	1,940	2,328	2,731	2,731	2,731
General Fund Proportion of net revenue stream	18%	19%	22%	22%	22%

LIABILITIES

88. In addition to debt detailed above, the Council is committed to making future payments to cover its **pension fund deficit** (valued at £54.4 million as at 31 March 2022). It has also set aside provisions of £3.4 million mainly to cover **business rate appeals**.

89. Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Deputy Chief Executive Officer. The risk of liabilities crystallising and requiring payment is monitored by Finance and reported as necessary.

90. Further details on liabilities are given in the 2021/22 Statement of Accounts.

REVENUE BUDGET IMPLICATIONS

91. 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.

92. 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, general government grants and housing rents.

Prudential Indicator 6 - Proportion of financing costs to net revenue stream

	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund Financing costs £'000	556	825	999	1,081	1,126
General Fund Proportion of net revenue stream	5%	7%	8%	9%	9%
HRA Financing costs £'000	1,696	1,763	1,801	1,825	1,836
HRA Proportion of net revenue stream	13%	12%	13%	13%	13%

93. 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 30 years into the future. The Deputy Chief Executive Officer is

satisfied that the proposed capital programme is prudent, affordable and sustainable.

KNOWLEDGE AND SKILLS

94. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council also supports junior staff to study towards relevant professional qualifications including CIPFA.

95. 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 a number of property consultants. 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 1

CAPITAL PROGRAMME 2022/23 to 2026/27

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£	£	£	£	£	£
HEALTH AND PUBLIC PROTECTION						
CCTV Cameras	9,400					9,400
HEALTH AND PUBLIC PROTECTION TOTAL	**9,400**	**0**	**0**	**0**	**0**	**9,400**
STREETSCENE						
Bus Shelters	20,000				89,000	109,000
Play Area Safety Equipment and Surface Replacement	17,100	50,000	50,000	50,000	100,000	267,100
STREETSCENE TOTAL	**37,100**	**50,000**	**50,000**	**50,000**	**189,000**	**376,100**
LEISURE AND COMMUNITY						
Buildings						
Fareham Live	5,310,200	8,922,600	1,552,800	229,400		16,015,000
Leisure Centres Capital Investment		305,000	141,700			446,700
Community Buildings Review	80,000	319,600	22,400			422,000
Whiteley Community Centre Refurbishment		40,000				40,000
	5,390,200	9,587,200	1,716,900	229,400	0	16,923,700
Play Schemes						
Play Area Improvement Programme	82,300	100,000	100,000	100,000	200,000	582,300
Skate Park Upgrade - Wicor Recreation Ground		100,000				100,000
Skate Park Upgrade - Stubbington Recreation Ground		100,000				100,000
Fareham College Play Area		50,000				50,000
	82,300	350,000	100,000	100,000	200,000	832,300
Other Community Schemes						
Allotment Improvements		16,300				16,300
	0	16,300	0	0	0	16,300
LEISURE AND COMMUNITY TOTAL	**5,472,500**	**9,953,500**	**1,816,900**	**329,400**	**200,000**	**17,772,300**
HOUSING						
Home Improvements						
Disabled Facilities Grants	1,650,000	500,000	500,000	500,000	500,000	3,650,000
Empty Homes Strategy					72,600	72,600
	1,650,000	500,000	500,000	500,000	572,600	3,722,600
Enabling						
92 Gordon Road Improvements	163,400					163,400
Sea Lane, Stubbington - Self Builds	75,900					75,900
	239,300	0	0	0	0	239,300
HOUSING TOTAL	**1,889,300**	**500,000**	**500,000**	**500,000**	**572,600**	**3,961,900**

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£	£	£	£	£	£
PLANNING AND DEVELOPMENT						
Car Parks						
Car Parks - Surfacing	20,000	132,500	195,000			347,500
	20,000	132,500	195,000	0	0	347,500
Coastal Protection						
Salterns Recreation Ground Seawall Repairs	98,000					98,000
	98,000	0	0	0	0	98,000
PLANNING AND DEVELOPMENT TOTAL	**118,000**	**132,500**	**195,000**	**0**	**0**	**445,500**
POLICY AND RESOURCES						
Replacement Programmes						
Vehicles and Plant Replacement Programme	494,700	400,000	400,000	400,000	400,000	2,094,700
ICT Development Programme	399,700	171,000	105,000	100,000	0	775,700
	894,400	571,000	505,000	500,000	400,000	2,870,400
Operational Buildings						
Civic Offices Improvement Programme	200,000	480,500	3,000,000			3,680,500
Depot Asset Management Works	224,500					224,500
	424,500	480,500	3,000,000	0	0	3,905,000
Property Developments						
Osborn Road Multi-Storey Car Park	100,000	1,812,100				1,912,100
166 Southampton Road Repairs	100,000	1,093,500				1,193,500
	200,000	2,905,600	0	0	0	3,105,600
Solent Airport at Daedalus						
Daedalus Site Wide	279,900					279,900
Daedalus Faraday Business Park	352,700					352,700
Managed Hangarage	105,000					105,000
Taxiway Maintenance		2,700,000				2,700,000
Aircraft Parking		200,000		200,000		400,000
Aeronautical Ground Lighting and Precision Based Navigation System	150,000	1,150,000				1,300,000
Self-Fuelling Facility		25,000				25,000
Grounds Maintenance Facility		160,000				160,000
	887,600	4,235,000	0	200,000	0	5,322,600
POLICY AND RESOURCES TOTAL	**2,406,500**	**8,192,100**	**3,505,000**	**700,000**	**400,000**	**15,203,600**
GENERAL FUND TOTAL	**9,932,800**	**18,828,100**	**6,066,900**	**1,579,400**	**1,361,600**	**37,768,800**

HOUSING REVENUE ACCOUNT						
Improvements to Existing Stock	3,015,000	3,050,000	3,100,000	3,150,000	3,200,000	15,515,000
Vehicles	40,000	100,000	70,000	70,000	100,000	380,000
Acquisitions	283,000	500,000	500,000	500,000	500,000	2,283,000
New Builds	3,953,500	2,056,000	681,000	270,000	0	6,960,500
HOUSING REVENUE ACCOUNT TOTAL	**7,291,500**	**5,706,000**	**4,351,000**	**3,990,000**	**3,800,000**	**25,138,500**
TOTAL CAPITAL PROGRAMME	**17,224,300**	**24,534,100**	**10,417,900**	**5,569,400**	**5,161,600**	**62,907,300**

FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
06 February 2023

Portfolio:	Policy & Resources
Subject:	**Treasury Management Strategy**
Report of:	Deputy Chief Executive Officer
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:
This report considers the draft Treasury Management Strategy and Investment Strategy for 2023/24, prior to its submission to the Council for approval.

Executive summary:
Regulations require the Council to prepare and formally approve both an annual Treasury Management Strategy and Investment Strategy. The document for 2023/24 is attached as Appendix A to this report for consideration by the Executive before being submitted to Council for approval.

A new prudential indicator, the **liability benchmark**, has been added to reflect the requirements of the revised Treasury Management Code of Practice and the Prudential Code issued in 2021. This new prudential indicator in paragraph 48, shows the lowest risk level of borrowing for the Council.

In the past 12 months, the Council's **investment** balance has ranged between £21 million and £38 million, lower levels are expected in the forthcoming year due to capital programme expenditure. The Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income

Borrowing levels are expected to be £52.2 million at the end of 2023/24 to fund the capital programme. The Council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield.

Recommendation:
It is recommended that the Executive:

(a) endorses the draft Treasury Management Strategy and Investment Strategy for 2023/24, attached as Appendix A to this report; and

(b) agrees to submit the report to Council for approval.

Reason:
In accordance with the Code of Practice for Treasury Management in the Public Services and guidance from the Ministry for Housing Communities and Local Government (MHCLG), the Treasury Management Strategy and Investment Strategy have to be approved by full Council.

Cost of proposals:
Not applicable

Appendices: **A:** Treasury Management Strategy and Investment Strategy 2023/24

Background papers: None

Reference papers:

Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services 2021

CIPFA The Prudential Code 2021

Statutory Guidance on Local Government Investments issued under section 15(1)(a) of the Local Government Act 2003 from the Ministry of Housing, Communities and Local Government (MHCLG)

Template for Treasury Management Strategy and Investment Strategy 2023/24 provided by Arlingclose (the Council's Treasury Advisers)

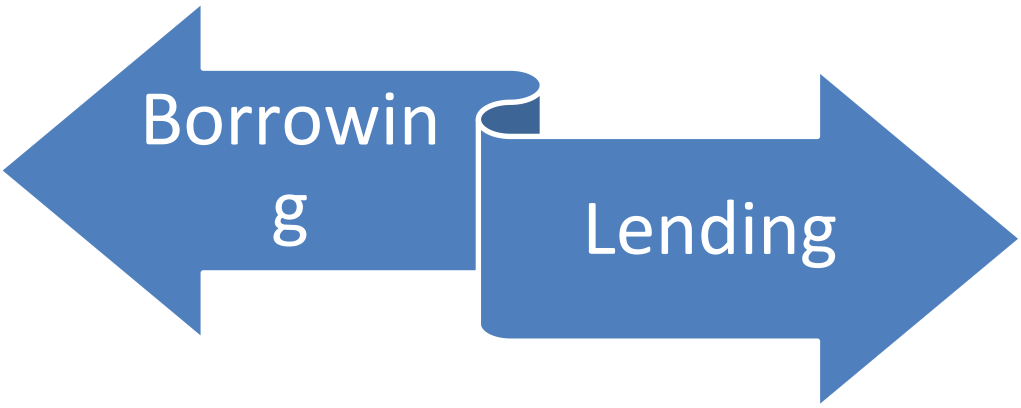
Enquiries:

For further information on this report please contact Caroline Hancock (01329 824589)

APPENDIX A

B

TREASURY MANAGEMENT STRATEGY
AND
INVESTMENT STRATEGY
2023/24



INTRODUCTION

WHAT IS TREASURY MANAGEMENT?

1. Treasury Management is defined as:

> *The management of the organisation's 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. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. There are two aspects to the treasury management service:

   a) To ensure the cash flow is adequately planned, with **cash being available when it is needed**. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

   b) To ensure the cash flow meets the Council's **capital plans**. These capital plans provide a guide to the **borrowing need** of the Council. Essentially this is the longer term cash flow planning to ensure that the Council can meet its capital spending requirements. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CONTENT OF THE TREASURY MANAGEMENT AND INVESTMENT STRATEGIES

3. These strategies set out the expected approach to treasury management and investment activities for 2023/24. It covers two main areas:

Treasury Management

- Investments
- Borrowing
- Treasury Indicators
- Interest Rate Forecast

Investment Strategy

- Commercial Investments
- Investment Indicators
- Capacity and Skills

4. The content of the Strategies is designed to cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

REPORTING REQUIREMENTS

5. The Council receives and approves three main reports each year in relation to Treasury Management, which incorporate a variety of polices, estimates and actuals. The three reports are:

6. The Executive Commmittee is responsible for the implementation and monitoring of these reports whilst the Audit and Governance Committee is responsible for the effective scrutiny of the treasury management strategy and policies.

TREASURY MANAGEMENT STRATEGY

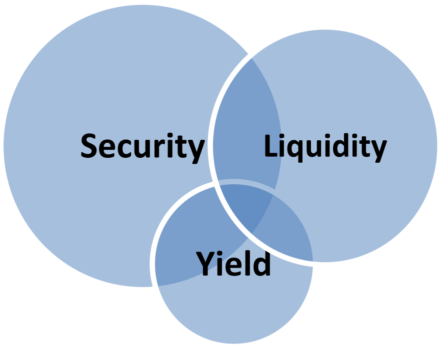
INVESTMENTS

Current Portfolio Position

7. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £21 million and £38 million, lower levels are expected in the forthcoming year due to capital programme expenditure.

Treasury Investment Strategy

8. The CIPFA Code requires 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**.



9. 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.

10. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

11. The Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

12. Under the new 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 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.

Approved Counterparties

13. The Council may invest its surplus funds with any of the counterparty types in the

table below, subject to the limits shown.

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	50 years	Unlimited	n/a
Local authorities and other government entities	25 years	£4m	Unlimited
Secured investments*	25 years	£4m	Unlimited
Banks (unsecured)*	13 months	£2m	Unlimited
Building Societies (unsecured)*	13 months	£2m	£4m
Money market funds*	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£5m	£20m

14. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published **long-term credit rating is no lower than A-**. 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.

15. For entities without published credit ratings, investments may be either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £2 million per counterparty as part of a diversified pool.

16. Summary of counterparty types:

a) **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 Government are deemed to be zero risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

b) **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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 higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

c) **Banks and Building Societies (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. See below for arrangements relating to operational bank accounts.

d) **Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

e) **Strategic Pooled Funds:** Bond, equity and property funds that 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.

17. The Council may also invest its surplus funds in corporates (loans, bonds and commercial paper issued by companies other than banks), registered providers (loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations) and real estate investment trusts, subject to meeting the minimum credit rating criteria and time limits recommended by the Council's treasury advisers.

Operational Bank Accounts

18. The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

19. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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,
- 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.

20. 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.

Other Information on the Security of Investments

21. 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 and reports in the quality financial press and analysis and advice from the Council 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 credit rating criteria.

22. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council 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. The extent of these restrictions will be in line with prevailing financial market conditions. 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 investment returns to fall but will protect the principal sum invested.

23. The following **internal measures** are also in place:

- Investment and borrowing decisions formally recorded and endorsed using a Counterparty Decision Document.
- Monthly officer reviews of the investment and borrowing portfolio and quarterly reviews with the Chief Executive Officer.

Investment Limits

24. The Council's revenue reserves available to cover investment losses are forecast to be £5 million on 31st March 2023. In order to minimise 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 entities under the same ownership will be treated as a single organisation for limit purposes.

25. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as in the table 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.

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country

Liquidity Management

26. The Council uses a purpose-built cash flow forecasting spreadsheet 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. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

27. The Council will spread its liquid cash over at least **four providers** (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Environmental, Social and Governance Policy

28. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

29. The Council will seek to move towards investments that improve the environment, bring wider social benefits, and are with organisations with good governance.

30. The Council will give weight to the environmental, social and governance elements of credit ratings in making investment decisions, provided that the overall risk profile of the investment portfolio (including liquidity risk) is not compromised, and that decisions remain consistent with responsible financial management and stewardship.

BORROWING

Current Portfolio Position

31. The Council's borrowing position at 31 March 2022, with forward projections are summarised below.

£'000	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt at 1 April	53,200	50,200	52,200	51,200	50,200
Expected change in debt	(3,000)	2,000	(1,000)	(1,000)	(2,000)
Gross Debt at 31 March	**50,200**	**52,200**	**51,200**	**50,200**	**48,200**

32. Debt at 31 March 2023 is projected to be lower than originally estimated due to the use of internal borrowing rather than borrowing externally to fund the capital programme.

Borrowing Strategy

33. The Council's main objective when borrowing money is to strike an appropriately low risk balance between **securing low interest costs** and achieving **certainty of**

those costs 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.

34. 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.

35. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short term to either **use internal resources**, or to **borrow short-term** loans instead.

36. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and **reduce overall treasury risk**. The benefits of internal borrowing or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

37. Our treasury advisers will assist the Council with this **'cost of carry'** and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

38. The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

39. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield.

40. Alternatively, the Council may arrange forward starting loans, 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.

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

Sources of Borrowing

42. The approved sources of long-term and short-term borrowing are:
    - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
    - Any institution approved for investments.
    - Any other bank or building society authorised to operate in the UK.
    - Any other UK public sector body.
    - UK public and private sector pension funds (expect the Hampshire County Council Pension Fund).
    - Capital market bond investors.

- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

43. 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

44. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is 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.

45. **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 below.

46. **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

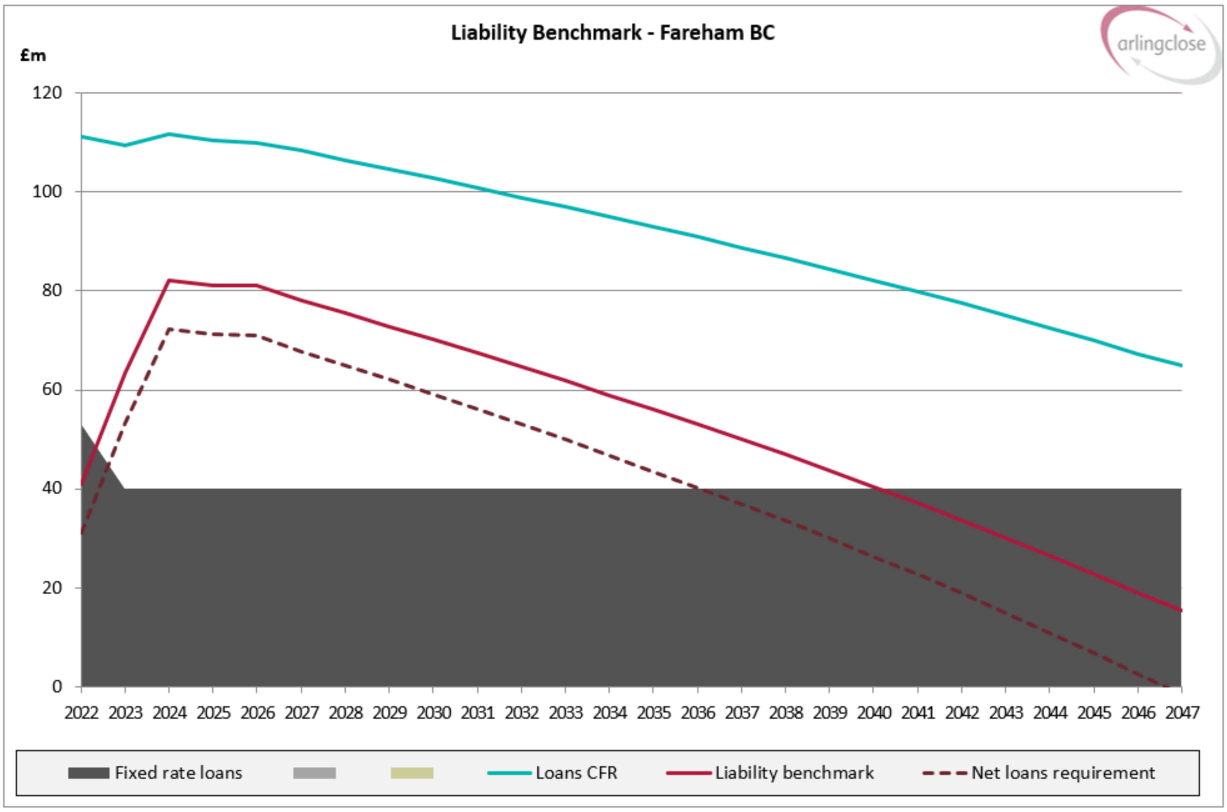
47. The Council measures and manages its exposures to treasury management risks using the following three treasury management indicators.

48. *Treasury Management Prudential Indicator 1 – 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 cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

49. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

£'000	31/3/22 Actual	31/3/23 Estimate	31/3/24 Estimate	31/3/25 Estimate	31/3/26 Estimate
Capital Financing Requirement	111,300	109,400	111,600	110,500	110,100
Less: Balance sheet resources	(80,400)	(56,000)	(39,400)	(39,300)	(39,100)
Net loans requirement	**30,900**	**53,400**	**72,200**	**71,200**	**71,000**
Plus: Liquidity allowance	10,000	10,000	10,000	10,000	10,000
Liability benchmark	**40,900**	**63,400**	**82,200**	**81,200**	**81,000**

50. The long-term liability benchmark is shown in the chart below together with the maturity profile of the Council's existing borrowing:



51. If cash flows occur as forecast, the Council's level of existing borrowing remains below the liability benchmark for the next 17-18 years. This indicates a need for further external borrowing over this period, peaking at approximately an additional £40m by 2024 and then reducing over time.

52. *Treasury Management Prudential Indicator 2 – Long-term treasury management investments:* 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 prudential limits on the long-term treasury mangement investments will be:

£'000	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Limit on principal invested beyond year end	14,000	15,000	16,000	17,000	18,000

53. *Treasury Management Prudential Indicator 3 - 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 of borrowing	Upper Limit %	Lower Limit %
- Loans maturing within 1 year	50	0
- Loans maturing within 1 - 2 years	50	0
- Loans maturing within 2 - 5 years	50	0
- Loans maturing within 5 - 10 years	50	0
- Loans maturing in over 10 years	100	100

54. 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.

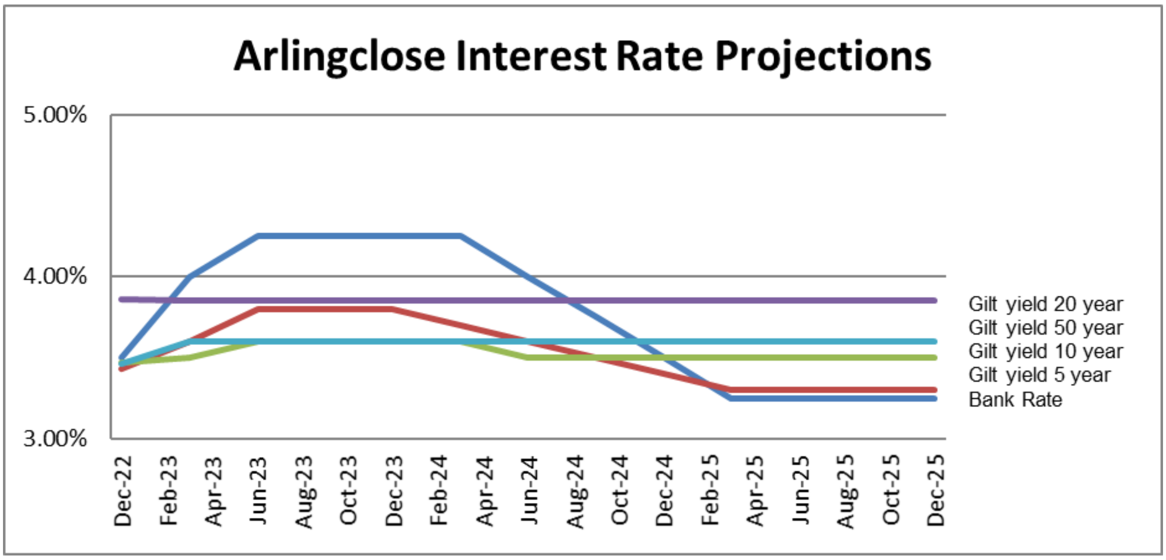
55. *Treasury Management Prudential Indicator 4 - Housing Revenue Account (HRA) ratios:* As a result of the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on **£49.3 million** of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £'000	49,268	49,268	49,268	49,268	49,268
HRA revenues £'000	14,228	13,208	13,744	14,170	14,477
Number of HRA dwellings	2,419	2,419	2,411	2,403	2,395
Ratio of debt to revenues %	3.46:1	3.73:1	3.58:1	3.48:1	3.40:1
Debt per dwelling £	£20,369	£20,369	£20,437	£20,505	£20,573
Debt repayment fund £'000	£6,840	£7,980	£9,120	£10,260	£11,400

INTEREST RATE FORECAST

56. The Council's treasury management adviser, Arlingclose, assist the Council to formulate a view on interest rates. The latest detailed economic and interest rate forecast provided by Arlingclose is attached at Annex 1.

57. The following graph and commentary gives the Arlingclose's central view on interest rates.



58. Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

59. While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

60. Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Other Items

61. The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.

62. **Policy on Apportioning Interest to the HRA:** On 28 March 2012, the Council borrowed £40 million from the Public Works Loan Board (PWLB) to buy itself out the of the HRA subsidy System. The monies were borrowed by the General Fund on behalf of the HRA. The interest on these loans is charged to the HRA on a half-yearly basis at the rate charged by PWLB. A further £9.268 million was lent by the General Fund to the HRA to complete the buyout. Interest on this element is charged at the average weighted rate of the PWLB loans.

63. The unfunded HRA capital financing requirement is also charged to the HRA at the average weighted rate of the PWLB loans.

64. The General Fund credits the HRA with interest earned on HRA credit balances calculated on the monthly movement in reserve balances and applied at year end. The rate used is the weighted interest rate on General Fund investments and cash balances.

65. **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 without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

66. The budget for net interest received in 2023/24 for the General Fund is £612,000 and the budget for net interest paid in 2023/24 for the HRA is £1,679,000. If actual levels of investments and borrowing, and actual interest rates differ from that forecast, performance against budget will be correspondingly different.

Other Options Considered

67. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes 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

INVESTMENT STRATEGY

68. 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).

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

70. The Council does not currently have any service investments.

COMMERCIAL INVESTMENTS

71. The Council invests in local and some regional UK commercial property with the intention of making a profit that will be spent on local public services.

72. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased commercial investment properties currently valued at **£35.7 million** and expected to generate rental income of £2.3 million during 2023/24.

Property Type	**Current Value £'000**
Retail	21,745
Commercial	11,730
Other	2,210
Total	**35,685**

73. The Council's total Commercial property portfolio, shown below, is valued at **£68.3 million** and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	**Current Value £'000**
Retail	34,045
Commercial	23,682
Other	4,388
Office	4,740
Leisure	1,481
Total	**68,336**

74. A fair value assessment of the Council's more recent commercial property

purchases has been made within the past twelve months, and the underlying assets provide security for capital investment.

75. The Council assesses the risk of loss before entering into and whilst holding property investments. These risks are managed by ensuring:
    - funds available for new purchases are disaggregated to limit the overall impact that any single investment would have on the Council's finances;
    - there is a mix of property types in the portfolio e.g. retail, industrial, etc.;
    - new purchases are only considered with existing tenants of "high quality" and sufficiently long tenancy term;
    - appropriate checks are carried out to ascertain the tenant's reliability;
    - other "due diligence" is undertaken to protect the Councils investment as far as possible such as checks on planning conditions, land contamination issues and planning policy issues.

Proportionality

76. The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy.

£'000	2021/22 Actual	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Gross service expenditure	49,432	45,915	46,524	47,320	47,640	48,029
Investment income	4,476	4,463	4,222	4,758	4,758	4,758
Proportion	**9.1%**	**9.7%**	**9.1%**	**10.1%**	**10.0%**	**9.9%**

INVESTMENT INDICATORS

77. The Council has set the following three investment indicators to assess the Council's total risk exposure as a result of its investment decisions.

78. *Investment Indicator 1 - Total risk exposure:* The first indicator shows the Council's total exposure to potential investment losses.

£'000	2021/22 Actual	2022/23 Revised	2023/24 Estimate
Treasury Management Investments	22,189	15,000	15,000
Commercial Investments	68,336	68,336	68,336
Total	**90,525**	**83,336**	**83,336**

79. *Investment Indicator 2 - 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.

£’000	2021/22 Actual	2022/23 Revised	2023/24 Estimate
Treasury Management Investments	0	0	0
Commercial Investments	30,272	29,479	28,663
Total	**30,272**	**29,479**	**28,663**

80. *Investment Indicator 3 - 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.

	2021/22 Actual	2022/23 Revised	2023/24 Estimate
Treasury Management Investments	3.2%	4.1%	3.1%
Commercial Investments	3.3%	3.5%	3.7%
Total	**3.3%**	**3.7%**	**3.6%**

CAPACITY AND SKILLS

Training

81. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

82. Treasury management officers regularly attend training courses, seminars and conferences provided by the Council’s treasury management advisers and CIPFA.

83. Property services officers also regularly attend training courses, seminars and conferences provided RICS (Royal Institution of Chartered Surveyors) accredited/approved providers.

Use of Treasury Management Consultants

84. The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

85. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

86. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

ANNEX 1

ARLINGCLOSE ECONOMIC AND INTEREST RATE FORECAST

Economic Background – January 2023

The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

Credit outlook:

Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Underlying assumptions – December 2022

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.

- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.

- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.

- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.

- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.

- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight, and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.

- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short-term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast – December 2022

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.

- The MPC will cut rates in the medium term to stimulate a stuttering UK economy but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.

- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.

- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.