

Title of meeting: Cabinet

Date of meeting: 15 September 2020

Subject: Hampshire Community Bank - Treasury Loan

Report by: Deputy Director of Finance and Resources (Deputy Section 151 Officer)

Wards affected: All

Key decision: No

Full Council decision: No

1. Purpose of report

- 1.1 To update Cabinet on progress for the Hampshire Community Bank (HCB) project, and approve a £10 million lending facility, subject to certain conditions, in accordance with the Council's approved Treasury Management Policy 2020/21. Previous reports and updates from HCB are listed in Appendix 1.
- 1.2 To provide the Council with a vehicle to stimulate the local economy and support the recovery from Covid-19. It will enable some of the strongest SMEs to sustain and grow their business, supporting employment and prosperity in the area.
- 1.3 To help facilitate HCB through the final stages of the Bank Authorisation process, which, upon approval, will:
 - Enable the Bank to pursue its objectives to support and grow SMEs (the "backbone" of the UK economy), thus protecting and creating new local jobs for residents and, via the HCB Foundation, distributing grants to local charities
 - Protect the Council's £5m investment and as a consequence of authorisation, increasing the value of the Bank to circa £5m to £7m.

2. Recommendations

- 2.1 That Cabinet note the progress of Hampshire Community Bank (HCB) towards Bank Authorisation contained within this report.
- 2.2 That Cabinet approves a £10m lending facility between Portsmouth City Council (PCC) and Hampshire Community Bank (HCB) to enable Small and Medium Size

Enterprises (SMEs) with the highest credit quality that operate within the greater Portsmouth and Hampshire area to access loans to support and grow their business

2.3 That the £10m lending facility is subject to:

- i) A first tranche of £5m to be provided subject to satisfactory legal documentation being put in place that meets the requirements of the Council's approved Treasury Management Policy 2020/21.
- ii) A second tranche of up to £5m to be provided after a 6 month period and subject to the Deputy Director of Finance (Deputy Section 151 Officer) being satisfied that the performance of the HCB Loan Book is strong and within the delinquency limits set out in the authorised HCB Regulatory Business Plan.

2.4 That delegated authority be given to the City Solicitor and Deputy Director of Finance (Deputy Section 151 Officer) to conclude all the necessary legal documentation for the lending facility.

3. Background

3.1 The primary objective of Hampshire Community Bank (HCB) is to regenerate the region through supporting Hampshire based SMEs to grow the local economy and thus protect and stimulate job creation which fits well with the Council's priority to "Encourage businesses to invest in the city, supporting sustainable growth"

3.2 The Bank is committed to being a genuine Community Bank, run by local professionals for local people and small firms, retaining wealth and prosperity in the area. It has the potential to be a powerful force in supporting both the business and the voluntary sectors, creating the conditions for a strong, balanced and sustainable economy.

3.3 The current UK banking market is highly concentrated with 85% of business current accounts and almost 90% of business loans being provided by 4 providers, meaning that there are a limited number of places for SMEs to go to access SME loans and banking services. Added to this, low levels of customer satisfaction is experienced amongst SMEs and few SMEs trust their bank to act in their best interests or to support their business. HCB intends to provide a more tailored and personal service to SMEs, developing strong customer relationships.

3.4 Detailed research exists on the success of the German Community Banking model, where today still 70% of deposits are with around 1,500 Community Banks, 80% of all banks are not-for-profit Community Banks and SMEs account for over half of German record-beating exports.

3.5 Some of the benefits of Community Banks in general include:

- They are far more likely to lend to SMEs. Whilst the big banks are very centralised making lending decisions based typically on computerised credit scoring, community banks focus on developing very strong customer relations with individuals
- These banks have high levels of decision-making autonomy at a local level and have on the ground knowledge of the region they are servicing enabling them to be highly responsive to local and customer needs, offering swift decision making and lending;
- These banks focus on long term sustainable outcomes rather than short term profit;
- These banks only lend to businesses in their region;
- Surpluses are re-invested to maximise benefits to the local community

3.6 HCB is nearing the final stages of authorisation but needs to establish that it has funding available to establish a suitably sized loan book as part of the formal application procedure.

3.7 A report on HCB was approved by Cabinet on 10 July and City Council on 14 July 2014 (minute 72/2014). The report included the following recommendation:

Authority to approve a Capital Investment of up to £5 million in the creation of Hampshire Community Bank and incur any necessary costs relating to the Due Diligence process is delegated to the Head of Financial Services and Section 151 Officer in consultation with the Strategic Director Regeneration.

3.8 Full Council approved the Treasury Management Policy for 2020/21 on 17 March 2020 which included provision for £10m of lending to HCB on the following terms:

- i) *That lending to Hampshire Community Bank (HCB) will be secured on loans made by HCB to small and medium sized enterprises (SME's) of the highest credit quality which may not in turn be secured on tangible fixed assets;*
- ii) *That loan advances to HCB in accordance with (i) above will be subject to individual approval by Cabinet*
- iii) *That the maximum duration of loans to HCB be is 5 years*

3.9 For clarification purposes, the proposed £10m lending facility referred to in this report is a loan, repayable on commercial terms, to enable HCB to establish a significant loan portfolio. It is not related to the initial £5m equity investment which confers voting rights and was approved to fund the establishment of the bank to progress through the regulatory bank authorisation procedure.

4. Corporate Structure

- 4.1 Hampshire Community Bank (HCB) has a three level corporate structure, summarised as follows (See Appendix 2 for further details):

HCB Foundation:

- Company Limited by Guarantee registered as a [Charity](#) with the Charity Commission and governed by Trustees.
- Charitable Objects include *"To promote any charitable purposes (according to the law of England and Wales) that benefit the public primarily in Hampshire" and "To promote any purposes that benefit the public primarily in Hampshire; to promote any charitable purpose (according to the law of England and Wales) in the United Kingdom, if the public in Hampshire will also benefit indirectly"*.
- A corporate governance design has been put in place to mitigate against the risk of takeover, which historical records indicate is the biggest problem when setting up a new local bank. Under UK legal framework, the strongest form of prevention of takeover and ensuring longevity is ownership by a charity for the benefit of the local people.
- The Foundation has as its central purpose to own and never dispose of the Community Bank, via its ownership of 50% of HCB Holding Ltd. B Class Common Shares. These are issued whenever the investors' A class shares are issued, such that HCB Foundation will always have 50% of the vote in an AGM of HCB Holding Ltd. In addition to charitable donations from the public, the Foundation is to receive a steady income from dividends paid by the Community Bank.
- Investors in A Class Common Shares of HCB Holding Ltd obtain the benefit of 100% of the vote on the Grants Board of HCB Foundation. This body (described later in this section) which HCB Foundation will be responsible for establishing, will advise on *"allocating for charitable grants, donations and disbursements half of the funds contributed to the Charity by both the Community Bank and HCB Holding"*.
- HCB Foundation holds 50% voting rights in HCB Holding Ltd. (see below), the remaining 50% of the voting rights are held by the investors.
- [Trustees](#) currently are Anne Harrison (formerly of Hampshire County Council, now retired), Sarah King (Eastleigh BC Chief Financial Officer), Shamsheer Dandha (entrepreneur), Andrew Walsh (Finance Director) and Dr Richard Werner (Professor of Banking and Finance, previously Senior Managing Director, Bear Stearns Asset Management now JP Morgan). Biographies of the trustees are attached at Appendix 3

HCB Holding Ltd.

- Private Company Limited by Shares. This is the company in which PCC and other public sector investors have purchased shares. The shareholders have signed up to purchase 8,000 shares at £1,000 per share as set out below. To date shareholders have released three quarters of these funds and payment of the remaining quarter is conditional on a further Due Diligence report from banking experts, BDO LLP. PCC have therefore paid £3.75 million of the total £5 million due:
 - 5,000 - Portsmouth City Council
 - 500 - Eastleigh Borough Council
 - 250 - Winchester City Council
 - 500 - Test Valley Borough Council
 - 200 - The University of Portsmouth
 - 100 - The University of Winchester
 - 400 - The University of Southampton
 - 100 - Southampton Solent University
 - 950 - [Local First Community Interest Company](#)
- HCB Holding Ltd. is jointly and equally owned by the founding shareholders who provide the bulk of the regulatory capital, and HCB Foundation, the charity described above (protecting the bank from takeover). Shareholders have 50% of the voting rights in HCB Holding Ltd. (see below), the other 50% being held by HCB Foundation.
- HCB Holding Ltd. owns 100% of the common shares issued by Hampshire Community Bnk Ltd. All directors require approval of the regulator and hence it is expected that the majority either has financial sector or financial law experience, or experience of finance and accounting in senior positions.
- HCB Holding Ltd. effectively controls Hampshire Community Bnk Ltd. (see below) as it holds all the share capital for and can appoint and remove Directors of Hampshire Community Bnk Ltd.

Note: Within HCB's proposed original group structure (as shown in the 10 July 2014 Cabinet report), investors in HCB Holding Ltd were to be issued with preference shares (which do not give any voting rights, but instead guarantee a fixed dividend, which has priority over any dividend paid to other shareholders). However, changes to bank regulation and in particular to capital adequacy ("Basel") rules (CRD IV, CRR) effective from 2014, meant that the original structure with preference shares could not be implemented. The current group structure was developed, with significant input from the legal advisors Blake Morgan (then Blake Laphorn) and external consultants BDO LLP.

- [Directors](#) currently are Chris Ward (Chair of the HCB Holding Ltd. Board of Directors and PCC Section 151 Officer), Johannes Haas (General Manager, DZ Bank AG London Branch), and Dr Richard Werner (Professor of Banking and Finance, previously Senior Managing Director, Bear Stearns Asset Management now JP Morgan).

Hampshire Community Bnk Ltd. (HCB)

- This is the company which is seeking authorisation from the Bank of England to operate as a bank. The name includes the word "Bnk" because a company name cannot include the word "Bank" until it is authorised to operate as a bank by the Bank of England.
- As described above HCB Holding Ltd. Board has the power to appoint or remove Hampshire Community Bnk Ltd. directors. Any dividends are distributed to HCB Holding Ltd., which fully owns the Community Bank.
- Directors currently are Johannes Haas (General Manager, DZ Bank AG London Branch), Andreas Neukirch (Director of Operations, Hampshire Community BNK Ltd), Bernd Grund (Director of Sales, Hampshire Community BNK Ltd) and Dr Richard Werner (Professor of Banking and Finance, previously Senior Managing Director, Bear Stearns Asset Management now JP Morgan). The Articles of the company place no limit to the number of Directors, but there must be a minimum of two.

4.2 Biographies of the Trustees and Directors within the HCB structure are provided at Appendix 3

Grants Board

The "Grants Board" which will advise on *"allocating for charitable grants, donations and disbursements half of the funds contributed to the Charity by HCB Holding Ltd."*

Oversight will be provided by the Charity Commission which require the trustees of HCB Foundation to be held accountable for all charity activity. As such, the Grants Board will be appointed as an advisory board to HCB Foundation, and may be formalised in the articles of association if approved by the Commission.

At present the Grants Board has not been established by HCB Foundation. However this will take place prior to any funds being contributed to HCB Foundation by HCB Holding Ltd.

The current proposal for composition of the Grants Board (originally drafted as part of the HCB Foundation Articles of Association): *"All current investors in A Class Common Shares of HCB Holding Ltd. amounting to £50,000 or more are eligible and invited to serve as members of the Grants Board or delegate this task by nominating a member to the Grants Board. Current owners of A Class Common Shares of HCB Holding Ltd. in excess of £1 million, may appoint a member to the Grants Board for every £1 million of holdings in A Class Common Shares, or alternatively appoint one member with multiple votes, whereby one vote for every £1 million of holdings in A Class Common Shares can be exercised up to a maximum of 50% of the total votes".*

Membership and voting rights of the Grants Board could therefore be comprised of the below, based on current HCB Holding investors:

| Investor in HCB Holdings Ltd | Value of A Class Common Shares in HCB Holdings Ltd | Members/Votes on Grants Board |
|--|--|-------------------------------|
| Portsmouth City Council | £5,000,000 | 5* |
| Eastleigh Borough Council | £500,000 | 1 |
| Winchester City Council | £250,000 | 1 |
| Test Valley Borough Council | £500,000 | 1 |
| The University of Portsmouth | £200,000 | 1 |
| The University of Winchester | £100,000 | 1 |
| The University of Southampton | £400,000 | 1 |
| Southampton Solent University | £100,000 | 1 |
| Local First Community Interest Group | £950,000 | 1 |
| *could be represented by 1 member with 5 votes | | |

Table 1: Shareholdings in HCB Holding Ltd.

The extent of funds on which recommendations will be advised on by the Grants Board is limited to half of the funds contributed to HCB Foundation by HCB Holding Ltd.

5. Contractual Position and Due Diligence

- 5.1 The eight public sector shareholders have signed up to an Application to Subscribe for shares in HCB Holding Ltd. and a Subscription Agreement. PCC has committed to purchase £5 million of shares with payments being made in four instalments linked to key parts of the bank authorisation process. Release of each instalment is conditional on a Due Diligence report from banking experts BDO LLP which assesses whether, in BDO's expert opinion, HCB are capable of achieving authorisation. To date BDO's reports have satisfactorily concluded that the bank is capable of achieving authorisation and therefore all eight investors have paid the first three instalments.
- 5.2 Release of the fourth and final £1.25 million instalment from PCC to HCB is conditional on the bank achieving "Authorisation With Restriction", once this stage in the bank authorisation process is achieved the instalment represents a contractual commitment.
- 5.3 The latest BDO report was prepared for investors in March 2019 on progress to date showing a review of the key documents required for the Challenge Sessions which is the final stage of the regulatory process prior to submission of an Application for Assessment (a summary of the regulatory process is shown in Section 6.1). BDO LLP's review of the updated Regulatory Business Plan (RBP) and an assessment of HCB Ltd.'s ability to obtain authorisation to operate as a bank concluded:

"Overall, based on our assessment of the Firm's preparation for the "Challenge" session (including document review), we conclude that HCB is adequately prepared for the "Challenge Session". We understand that HCB has incorporated

the key recommendations ahead of the challenge sessions. Furthermore, in our opinion, we believe that authorisation can be achieved subject to the successful completion of the PRA¹ challenge session."

- 5.4 An updated opinion from BDO re: HCB's ability to obtain authorisation to operate as a bank was requested in July 2020, BDO's response is as follows:

"At the time of writing, we are aware that HCB recently attended a liquidity and capital challenge session with the PRA following successfully addressing queries from the PRA relating to the business model and senior management resourcing. This represents good progress towards authorisation (particularly in the current COVID environment), although additional steps to address any PRA feedback on the capital and liquidity models remain. We believe that HCB have the capabilities to address these challenges. Subject to the challenge session feedback and any other matters raised by the regulator during the authorisation process being satisfactorily addressed, our view, based on our experience, is that HCB is on track for achieving authorisation."

6. Regulatory Process and Timetable

- 6.1 The Banking Authorisation process is a very rigorous process administered by the Bank of England via the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The process requires the preparation of a Regulatory Business Plan (RBP), which is the key document describing the business plan, what the Bank plans to do, why, and how the bank will be set up and make money. It also explains the risks to the business and how they will be mitigated.
- 6.2 The process involves the scrutiny of the RBP with a focus on the viability of the business model, capital adequacy, liquidity and resolvability and aims to re-assure investors that the proposals meet the minimum regulatory standards. In addition, the process will vet the key executives / directors together with details of associated parties and commercial relationships as well as reviewing documentation and conducting on site visits.
- 6.3 The key stages include:
- Legal structure set-up
 - Funding secured
 - Pre-application meeting
 - Feedback meeting(s)
 - "Challenge Session"
 - Submission of Application for authorisation - **(HCB is currently at this stage of the process)**
 - Assessment and Authorisation process (led by PRA/FCA)
 - "Authorisation With Restriction" achieved

¹ Prudential Regulation Authority

- Mobilisation phase (led by PRA/FCA)
- Restrictions are lifted and Full Authorisation achieved

- 6.4 The technical "Challenge Session" with the PRA/FCA took place on 09 June 2020. This stage requires the RBP to be fully developed and involves an in-depth technical discussion with the regulators on any element of the proposition.
- 6.5 The "Challenge Session" concluded positively and HCB were advised that there would be no further challenge sessions and that they should look towards preparing their formal application as the next step. As is normal with this process, the bank will receive a written list from the regulators in which they will advise of areas that they would like HCB to make some amendments to their reports (i.e. the RBP and associated policies and procedures) to accompany the formal application to become an authorised bank.
- 6.6 Authorisation With Restriction (AWR) is expected to be granted within six months of submission of the complete authorisation documentation (the latter likely in December 2020). Full authorisation is expected within 12 months of obtaining AWR. HCB's current liquidity budget projections forecast that it will operate as a fully licenced bank in Quarter 3 of 2021.

7. Operational Readiness

- 7.1 Planning to provide the key resources and facilities needed for HCB to satisfy the regulator and start operations is well advanced. Set out below are details of progress on some of the key items
- 7.2 IT Core Banking System

Contracts for the iFinancial (iFS) and core banking system (CBS) were signed in March 2020 following a rigorous procurement process during 2018/19 where all the recognised CBS' were reviewed against a set of requirements laid down by the Community Bank Executive Committee to support the overall RBP for HCB. The decision process was supported by expert IT consultants from Goodacre.

The use of this technology to implement HCB's business model is of critical importance to the effective operation of the Bank. Financial terms agreed are beneficial for HCB, whereby the upfront expenditure is limited with full licence fees only payable if AWR is achieved.

Phase 1 testing was completed successfully and is being run in parallel with existing manual systems. The new system was used to send out HCB statements to all customers on 01 July 2020.

The general ledger has also been created with accurate opening balance position for the new business year.

In addition, draft procedure manuals for all processes relating to Know Your Client (KYC), Anti Money Laundering (AML), Collateral Recording, Loan Processing (including rate changes and all other identified amendments), New Loan set up (for new products within Loan services), administration rights to ensure a minimum of four-eyes principles, and the KYC and AML risk matrix is fully functional.

HCB is now in a position to manage large numbers of new loan applications using the iFS system, and is in the process of employing staff to be able to expand the loan book once funding is sourced to provide loans.

HCB are now in the process of testing the remaining functionality as part of Phase 2. The project is on target to have all services that will be required in the first 3 years of operation to be tested and operational from 30 September 2020, ahead of the expected granting of AWR.

7.3 Accessing Payments Systems

During the past financial year, HCB has chosen NatWest, the wholesale division of RBS, the UK's largest payments services provider, as its correspondent bank and payments services partner. This is the most practical and feasible option for HCB to obtain indirect access to the interbank payment systems (i.e. BACS, CHAPS and Faster Payments).

HCB has been accepted as a client, deposited the modest collateral sum required (£25k) with NatWest to underpin the daily operations of the correspondent banking relationship, and is now processing all the necessary forms to obtain access to the NatWest banking systems to enable all required daily banking operations. iFinancial is interfacing well with Natwest to install the direct debit facilities, and to be able to provide faster payments under EU electronic payment services regulations once current accounts are offered to HCB clients.

7.4 Premises

Eastgate House (80 Eastgate Street, Winchester) was purchased in 2018 to accommodate HCB.

Based on the requirements for the launch of the bank branch operation to the public (initially only SMEs), a small number of minor modifications to the premises were required and have been designed. The planning permission has been granted and work has started on the refurbishment.

Due to Covid-19, the refurbishing works have been progressing slower than originally planned, but are not likely to cause delay of the roll-out of services.

7.5 HR

The planned recruitment of key personnel is in line with plans and budgets. Staff are being recruited in line with cash flows and loan funding delivery.

7.6 Website Development

HCB have a domain provider for its website that enables it to have the necessary feeds in relation to automated email traffic to existing and future customers and other associated functionality that is in-built within the core banking system to support the future online banking offerings. Work is about to commence on the development of the website.

8. The Rationale and Economic Benefits of Supporting SMEs (Small and Medium Sized Enterprises)

- 8.1 The rationale for the establishment of a Community Bank arises from a lack of competition and a banking industry dominated by large players that lack interest in lending to small firms. The concentration of larger corporate banks creates an environment susceptible to a "credit crunch" and its associated affects. It is well known that following the 2008 banking crisis, lending from large corporate banks in the UK to SMEs declined dramatically leading to otherwise sound businesses going out of business. In Germany, the approach through the Community Banks was to keep lending to SMEs resulting in a high rate of business survival throughout a severe economic recession.

Large banks prefer to lend large amounts to large companies creating barriers for SMEs' access to finance and therefore growth arising from a more formulaic non-local approach. The lack of available finance for SMEs is an inhibitor to investment and economic growth. Since SMEs are the main employer in the UK and account for most newly created jobs, the lack of bank funding for SMEs has been a persistent problem for the UK economy. The same holds true for the 70,000 SMEs in Hampshire.

The German community banks, in their co-operative (Raiffeisen, Volksbank) and savings bank (Sparkassen) versions of local, legally independent, not-for-profit but profitable banks have been a continuing success story over the last 200 years. It demonstrates that this business model is both beneficial and commercially viable. In Germany, such local community banks account for 70% of all retail bank deposits, 80% of all banks and over 90% of lending to SMEs. It is their virtual absence in the UK that accounts for many of the funding problems SMEs are facing.

As mentioned, the primary objective of HCB is to regenerate the region through supporting Hampshire-based SMEs to grow the local economy:

- SMEs create the most jobs (the Green Growth Loans, operated by HBC, of £950k funding has, despite its small size, already created 115 new jobs and protected 156 more jobs - see Section 9 below)
- SMEs drive the regeneration and development of the economy
- SMEs in Hampshire are underserved:

- According to the British Bankers' Association postcode lending data, bank lending to SMEs in Hampshire has declined by 24% over the 2013-2019 period (PO post codes show a similar trend). See Figure 1 below.
- A number of failed Bank of England and Treasury SME focused schemes (i.e. Project Merlin, Funding for Lending) have indicated that high street banks have little desire to lend to this section of the economy due to issues of administration and an inability to support the customers on an individual basis.
- The Competition and Markets Authority Report 2016, and SME Growth Watch Report from the British Bankers' Association, indicate that a lack of competition from high barriers to entry means, that there is limited number of places for SMEs to go to access SME loans and banking services. Hence, the large banks are insulated from having to offer improved services and prefer to lend to larger customers, which is more profitable in terms of cost to benefit.
- The Gov.uk Small Business Survey 2018 indicated that SMEs seeking to get more credit, are often turned away and hence, do not apply for further loans given they feel the process is too time consuming and restrictive.

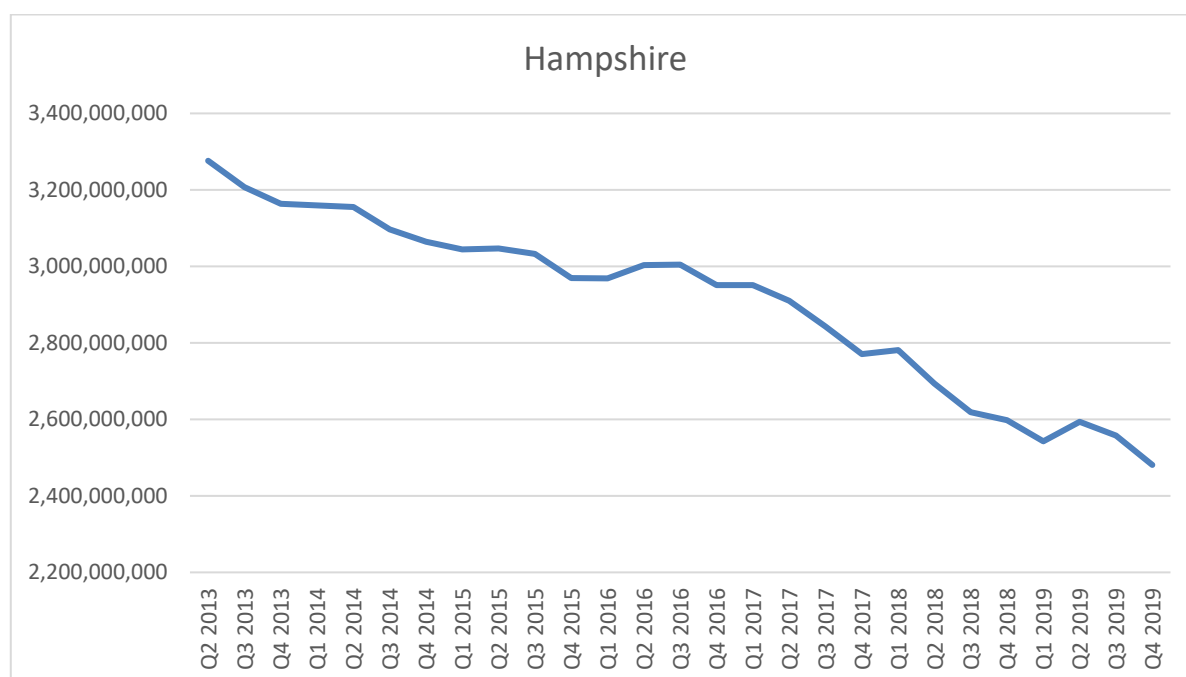


Figure 1a: Bank Lending to SMEs in Hampshire (£) 2013-2019

*Figures above source the information from the BBA Postcode Lending Data

SME lending in Hampshire and greater Portsmouth in recent years declined by more than in the UK as a whole, as shown below in Figure 1b. In Hampshire, on average the stock of SME loans has shrunk by 25.3 percent in 6 years. Lending in 72.3 percent of postcodes has not recovered to pre-2014 levels, and 60 percent of Hampshire postcodes still register negative yearly growth rates in SME lending.

Many, even strong, SMEs are being credit rationed either due to their application having been turned down, or, more likely due to deciding not to make an application, due to the long and burdensome process of applying to a remote bank decision-making centre, often automated, with no genuine connection to the locality and the many layers of bureaucracy before it can reach a decision maker if it is not a loan which fits into the standard "tick box" form. Such a credit crunch on SMEs has major consequences. The long term impact is to reduce a firm's ability to self-finance for growth and they can either stagnate or sell up or close down.

SMEs are by far the most important employer in the UK as well as in Hampshire. By providing credit for business investment by SMEs, job creation and economic growth are enhanced, while at the same time such productive credit is more resilient against property boom-bust cycles that have been due to large banks' propensity to lend mainly for property purchases. Local SME finance can enable the firms to be self-sustainable and finance growth. Social value is generated from the finance provided to local entrepreneurs to grow and hire in their local area.

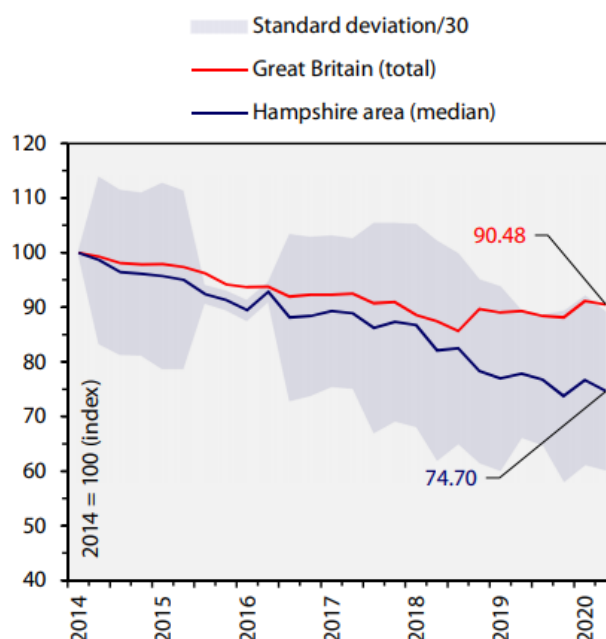


Figure 1b: Decline in Bank Lending to SMEs comparison between UK/GB against Hampshire 2014-2020

The failure of the existing high street bank network to support SMEs in Hampshire and the UK generally is not on the grounds of capital restrictions. In fact, the capital advantages and potential profits for banks' lending to small and micro SMEs who require loans of less than £1 million are very clear. The European Banking Authority (EBA) and UK Prudential Regulatory Authority (PRA) require banks to set aside less capital for lending to SMEs (based on a 23.8% lower risk rating) where the aggregate loan to a single customer is less than £1 million.

The total number of Hampshire-based SMEs is approximately 70,000 according to ONS and Credit Safe data, 2019.

The Community Bank can support a broad range of firms within the SME sector but in particular can offer support to the information and communication services sector, green technology firms, local manufacturing, transportation and maritime firms, the health and social care sector as well as the local hospitality sector. Here funds may crucially support the business through a period of transitioning and development with the renewal of growth opportunities.

- Economic Value of supporting SMEs based on research by Oxford Economics, indicates that every £1 million in lending:
 - Contributes at least £2 million to Gross Domestic Product (GDP)
 - Generates around £635,000 in local and national tax contributions
- Hence the £10 million loan portfolio should:
 - Contribute at least £20 million directly to GDP
 - £6.35 million in local and national taxes
 - A further indirect impact due to likelihood of purchasing from local supply chains, generating a greater induced impact to local Gross National Product (GNP)
- Social value of supporting local SMEs:
 - Self-sustainability and self-reliance of the local community
 - Local SMEs more likely to purchase from local supply chains
 - Wider support for existing jobs and the creation of new jobs in a range of sectors
 - Wage funded expenditure of the employees of these firms within the local economy
 - Supporting the ability to develop and retain skills locally and improve prospects for future generations.

9. Commercial Loans

9.1 Operating history with Green Growth Loans

In the UK, lending to businesses does not require authorisation as a bank. HCB has already lent over £1m to small and medium sized entities. The loan portfolio was established in 2016, entitled "Green Growth Loans" (GGLs) and originally funded by

a Regional Growth Fund (RGF) grant of £950,000 and administered by Local First Community Interest Company with Eastleigh Borough Council as Accountable Body.

At the end of March 2017 loans ranging from £20,000 to £250,000 and totalling £1,145,000 had been given to 13 different companies largely in the Winchester and Eastleigh areas. Loan terms have been complied with by all but one debtor who unfortunately went into administration resulting in a loss for Local First CIC of £46,000.

HCB and Eastleigh Borough Council successfully transferred the entire Green Growth Loan book onto the balance sheet Hampshire Community Bnk Ltd. in February 2019. Since this time under Community Bank direct management, no defaults have occurred on new lending.

The loan portfolio has created around 115 jobs and secured the retention of around 156 jobs overall.

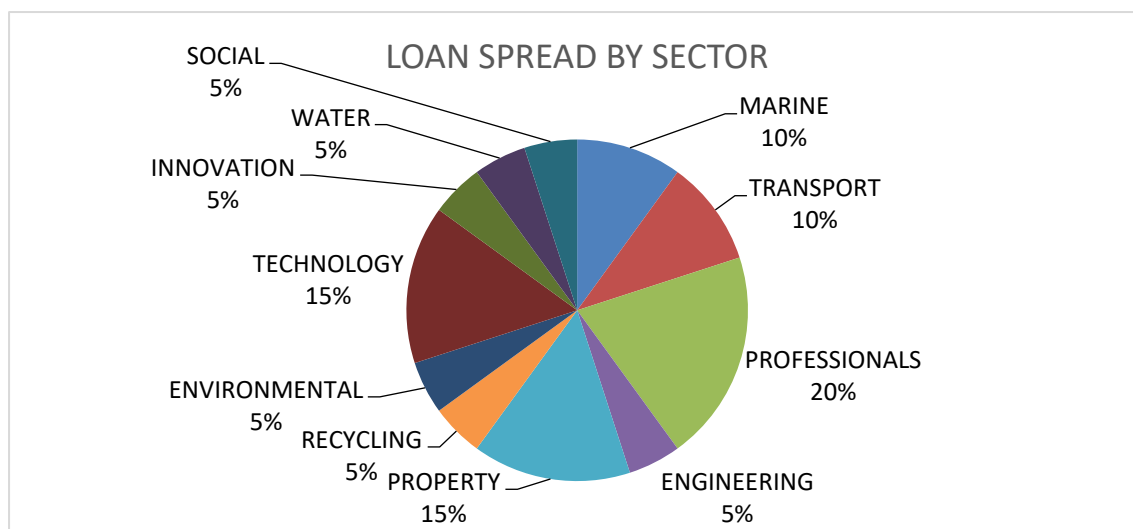


Figure 2: Green Growth Loans - Spread by Sector

9.2 Requirement for additional loan funding

Demonstration of the ability to grow loans is a key element of the Banking Authorisation process and during mobilisation to obtain full authorisation.

As part of HCB's business plan, a minimum of £10m needs to be available for lending, as soon as possible, to demonstrate to regulators that HCB is in a position to build, manage and administer a significant loan book. Additionally the provision of loans is critical to enable HCB to start making returns and thus dividends to its founding investors, including PCC (its major shareholder)

Once full authorisation is granted at the end of mobilisation, HCB will be able to rapidly expand its deposit-taking services. These funds will be the source of loan

funding going forwards. However, prior to AWR, HCB is not allowed to take deposits, and post AWR, during the mobilisation period, HCB can only take in a total gross amount of £50k in total in deposits. Thus, without another source of funding or an injection of capital, new lending cannot commence.

Additionally, HCB applied to the British Business Bank to become an accredited lender under the Coronavirus Business Interruption Loan Scheme programme (CBILS). HCB received positive feedback but needs to demonstrate its capability further through a larger lending programme before being re-considered - see para 9.5 below

9.3 New PCC Commercial Loans initiative

Advancing a loan to HCB provides the Council with a vehicle to stimulate the local economy and support the recovery from Covid-19. It will enable some of the strongest SMEs to sustain and grow their business, supporting employment and prosperity in the area.

Historically, the Council's Treasury Management Policy, approved annually by Full Council has allowed for a sum of £10m to be advanced to HCB. Accordingly, PCC and HCB have been preparing the necessary legal documentation for such a loan facility (no loans will be made until that documentation is satisfactorily completed). Once the legal documentation is executed and a loan advanced, HCB will be able to provide further commercial loans to SMEs secured on a variety of forms of collateral.

- 9.4 Unlike the City Council's existing £5 million equity investment in HCB Holding Ltd. shares (£3.75 million invested so far, remaining £1.25 million conditional on the bank achieving AWR as described in Section 5 above) the proposed £10m loan facility is not an equity investment for the purposes of setting up and capitalising the bank. Rather, it is a loan facility approved by the City Council on a commercial basis provided under its Treasury Management powers, repayable within 5 years and specifically for commercial loans to SMEs secured on a variety of forms of collateral and at interest rates in excess of those that can be obtained through our normal treasury management investments.

HCB intend to select the most secure and stable SMEs for the SME loan portfolio:

- Within Hampshire (according to ONS and Credit Safe data, 2019), there around 70,000 SMEs, of which Creditsafe data shows 46,000 as having credit weightings. 23,000 of these are of the highest credit standard. HCB's primary market segment is to focus on these 23,000 high credit standard SMEs providing a suitably sized very low risk client base to meet loan targets.

Hampshire has one of the largest number of firms, compared to other regions in England, within the very low risk category/band of credit risk (score of 71-100) and each would have a very low probability of default of less than 1% well below the 2%-

3% HCB have modelled and provisioned in their Regulatory Business Plan under which viability is demonstrated.

9.5 The primary risk to the Council is the business failure of HCB, this would put at risk both the Council's equity investment of £5m plus the proposed £10m loan facility to the extent that it had been advanced. Defaults on individual loans advanced by HCB from the £10m loan funding proposed are not the immediate risk of the Council and are borne across the whole loan portfolio of HCB. Individual defaults of loans to SMEs are carried by HCB itself and the repayment of the proposed £10m loan plus interest would still be payable by HCB. The key risk of failure by HCB relates to defaults considerably in excess of 2%-3%. These risks are mitigated by:

- i) The strength of the Business Plan - This has been rigorously scrutinised by the regulators through the authorisation process which involves evaluation of the Regulatory Business Plan (including its credit policy i.e. lending policy risk and vetting of senior executives
- ii) The complimentary advice from Banking experts BDO LLP
- iii) The underlying security that in the event of HCB failure, all loans to SMEs will transfer to the Council
- iv) The underlying credit quality (company strength) of the loans advance to the SMEs
- v) The diversification strategy of the SME loan portfolio, including emphasis on lending for productive business investment, as opposed to property lending.

9.6 Security for the £10m PCC Loan & Draft Loan Drawdown Summary

Security for the £10m loan is provided in a number of tangible and intangible forms. Tangible security includes:

- The £1m Green Growth loans book of HCB
- £1.6m of property assets owned by HCB
- Any cash balances of HCB (up to circa £2.3m)
- The underlying loans with SMEs (up to £10m)

Intangible security arises from:

- The financial strength (high credit quality) of the SMEs in receipt of the loans
- The loan portfolio diversification (sectoral and geographic)
- The bank's credit policy

- The rise in the underlying value of the bank by circa £5m to £7m upon bank authorisation

The £10m loan facility is proposed to be divided into two tranches of £5m as follows:

- A first tranche of £5m to be provided subject to satisfactory legal documentation being put in place that meets the requirements of the approved Treasury Management Policy 2020/21
- A second tranche of up to £5m to be provided after a 6 month period and subject to the Deputy Director of Finance being satisfied that the performance of the HCB Loan Book is strong and within the default limits set out in the authorised HCB Regulatory Business Plan.

Figure 3 below sets out HCB's draft loan drawdown summary along with details on loan collateral.

| Drawdown | Funding amount | Period required | Portfolio loan collateral terms | Additional collateral (HCB) |
|----------|----------------|--|---|---|
| 2Q 2020 | £5 million | 24 months (loan facility will allow for 60 months) | <ul style="list-style-type: none"> • £1m fully secured with tangible assets • £3m secured with debenture and tangible company assets • Maximum of £1m secured in general (for example with a personal guarantee) | <ul style="list-style-type: none"> • £1m in GGL assets / cash • £500k+ in cash • £1.6m property assets |
| 3Q 2020 | £5 million | 18 months (loan facility will allow for 60 months) | <ul style="list-style-type: none"> • £1m fully secured with tangible assets • £3m secured with debenture and tangible company assets • Maximum of £1m secured in general (for example with a personal guarantee) | In addition to above <ul style="list-style-type: none"> • £1.7m additional equity as cash • Value of AWR approval (ca. £5m-£7m) |

Table 2: Draft loan drawdown summary - source HCB

9.7 Risk Management Approach

The SME loans extended by HCB will form a deliberately designed SME loan portfolio that diversifies credit risk across industries, geographic location, size of borrower, service sector by avoiding concentration in these dimensions. Key to credit risk management is the diversification of portfolios by reference to geography, industry, individual borrower etc. as this provides greater strength overall. If one geographic region, one business sector or a large client experiences difficulties, the remainder of the portfolio is likely not to be affected.

The overall credit risk management policies in relation to concentration limits for the spread of credit risks, single names, industry, geographic split and levels of unsecured lending are strictly adhered to throughout the portfolio expansion process. There are restrictions with respect to both the business sectors HCB will lend to, the concentrations in respect to the business sectors it will lend to and the concentration of the overall portfolio.

Further mitigation is provided by the diversity of the Hampshire economy with a broad range of industries and economic sectors represented. Hampshire itself is of a similar size to some small countries and has a range of resources including ports and air links as well as resilience to specific downturns with the range of sectors including agriculture, advanced manufacturing, diverse services, technology and transportation.

Examples of a HCB loan portfolio structure and customer diversification/industry spread are shown in para's 9.7.2 and 9.7.3 below.

Lending by HCB under this portfolio will be subject to the following criteria:

- The most secure and stable SMEs will be identified based on a Credit Safe score of 70+ (very low risk as identified by Credit Safe) for which a probability of default of less than 0.2% is the Credit Safe prescribed default percentage.
- Average loan size is expected to be approximately £125k-250k for this portfolio. Maximum loans will be linked to credit rating. There will be a maximum £350k for term loans, which is in line with PCC Treasury Management guidelines. Note: any loan in excess of £350k would require additional PCC approval (within a three working day turnaround).
- Average loan term 3 years with maximum loan term of 5 years. This will align with PCC's lending facility to HCB, thus minimising probability of loan default.
- Geographic spread of loans is estimated to be 50% within Greater Portsmouth boundaries (PO postcodes in Hampshire) and 50% Wider Hampshire.

HCB have stated that loans from PCC can be repaid from SME customer principal loan repayments. However, upon authorisation, the loan is likely to be repaid earlier than that from retail term deposits that will then be available to HCB. The proposed loan facility will therefore allow for early repayment by HCB.

Liquidity risk is a primary concern for the management of HCB. HCB's risk appetite for liquidity risk is very low. As a result, HCB's business model and performance targets in relation to the size of the liquid asset buffer (85% free cash on deposit with the Bank of England, 15% gilts); liquidity coverage ratio (LCR); and net stable funding ratio (NSFR) are equivalent compared to the statutory minimum requirements set by regulators.

9.7.1 The Community Bank's Credit Policy

The Hampshire Community Bank's Credit Policy describes the criteria for evaluating loan applications. The Credit Policy has been approved by the Senior Management and Executive Team of the Community Bank, which comprise individuals with over 90 years of banking experience combined.

The regulators, Prudential Regulation Authority and the Financial Conduct Authority have thoroughly reviewed the RBP and accompanying Credit Policy and as result of the documentation, the Bank Application has now been through the Challenge Session phase to the last part of the process prior to Mobilisation.

The Credit Policy has also been vetted by NatWest/RBS as part of the approval process for the Agency Banking access to UK payments infrastructure and as result of solid Credit Risk Policies and procedures the Community Bank has to only lodge a nominal deposit for the services.

9.7.2 Example HCB loan portfolio structure based on key target industries and scale in Hampshire (as referenced in 9.7):

| SECTOR | NO. OF BUSINESSES | GVA (£BN) | EMPLOYMENT | PORTFOLIO % |
|-----------------------|----------------------|-----------|------------|-------------|
| ADVANCED ENGINEERING | 3,400 | 1.8 | 31,300 | 10% |
| AEROSPACE | 200 | 1 | 10,600 | 5% |
| DEFENCE | 50 | 0.4 | 7,200 | 5% |
| DIGITAL MEDIA | 1,800 | 1.9 | 18,400 | 5% |
| ENERGY | 200 | 1.2 | 6,700 | 5% |
| ENVIRONMENT | 700 | 0.6 | 8,400 | 10% |
| MARINE | 1,300 | 2.1 | 27,000 | 5% |
| HEALTHCARE | 3,600 | 1.9 | 79,100 | 10% |
| HIGHER EDUCATION | 4 | 0.8 | 17,600 | 5% |
| HOSPITALITY | N/A | 2.0 | 60,500 | 5% |
| ICT | 4,500 | 2.2 | 30,500 | 10% |
| PHARMACEUTICALS | 200 | 0.6 | 7,500 | 10% |
| PROFESSIONAL SERVICES | 7,700 | 2 | 28,800 | 10% |
| PUBLISHING | 300 | 0.3 | 4,800 | 5% |

Table 3: Sample Loan Portfolio based on diverse sectors in Hampshire

Source: Hampshire County Council

9.7.3 Example tranche one HCB loan portfolio customer diversification/industry spread based on target customer base and experience with Green Growth lending (as referenced in 9.7):

| | SIC/BUSINESS | AMOUNT |
|---|--------------------------------------|----------|
| 1 | 11050 - Micro Brewery | £100,000 |
| 2 | 26702 - Manufacturing Photographic | £130,000 |
| 3 | 72110 - Research and Development | £155,000 |
| 4 | 26511 - Manufacture Sensor Equipment | £175,000 |
| 5 | 46450 - Care and Hygiene Products | £195,000 |
| 6 | 43390 - Construction services | £135,000 |

| | | |
|----|--|------------|
| 7 | 58290 - Software Publishing | £95,000 |
| 8 | 52102 - Distribution | £100,000 |
| 9 | 88990 - Social Work Activities | £40,000 |
| 10 | 26511 - Manufacture Electricals | £105,000 |
| 11 | 47610 - Publishing | £95,000 |
| 12 | 28990 - Manufacture Machinery | £50,000 |
| 13 | 41100 - Construction | £195,000 |
| 14 | 43290 - Installation Technology | £375,000 |
| 15 | 71111 - Design Services | £100,000 |
| 16 | 28990 - Manufacture Materials Machinery | £150,000 |
| 17 | 68209 - Land Development | £150,000 |
| 18 | 47610 - Children's Books | £30,000 |
| 19 | 27110 - Manufacture Electricals | £295,000 |
| 20 | 46450 - Cosmetics | £175,000 |
| 21 | 72110 - Biotech Research | £100,000 |
| 22 | 41100 - Building Developments | £175,000 |
| 23 | 45200 - Commercial Vehicles | £55,000 |
| 24 | 43390 - Maintenance Building | £74,000 |
| 25 | 43390 - Other Building | £135,000 |
| 26 | 11050 - Beverages | £150,000 |
| 27 | 68209 - Real Estate Development | £50,000 |
| 28 | 68310 - Estate Agency | £35,000 |
| 29 | 45200 - Transportation | £100,000 |
| 30 | 68310 - Lettings Agents | £65,000 |
| 31 | 27110 - Manufacture Electricals | £250,000 |
| 32 | 52102 - Warehousing Services | £175,000 |
| 33 | 71111 - Architectural Services | £100,000 |
| 34 | 43390 - Repairs and Property Maintenance | £11,000 |
| 35 | 26702 - Manufacturing Imagery Products | £170,000 |
| 36 | 58290 - Information software | £110,000 |
| 37 | 43290 - Technology | £275,000 |
| 38 | 88990 - Care activity | £125,000 |
| | | |
| | | £5,000,000 |

Table 4: Tranche One SME Lending Portfolio Example

9.8 Other Funding Opportunities - The British Business Bank proposal

The Community Bank has applied to the British Business Bank (BBB) to become one of the accredited lenders under the Government's Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Bank Lending Scheme (BBLs) loan guarantee programs.

Under the latter program the Government, through the British Business Bank, will provide guarantees up to a level of 100% of the unsecured portion of a loan facility made to qualifying companies. The Community Bank's target market mostly meets the conditions for qualification.

If successful, the BBLS guarantee programme will significantly reduce the risk that lenders (including local authorities as well as wholesale market lenders) to the Community Bank face and should enable any financing provided to the Community Bank to be given at interest rates that enable the Community Bank to be competitive in its chosen focussed SME lending markets within Hampshire. This would help the Community Bank to support SMEs in Hampshire at this critical moment.

The applications were submitted in May 2020, HCB received positive feedback on their CBILS application, but were ultimately turned down for accreditation due to their loan book not increasing in size in recent years and presently being too small. HCB therefore need to demonstrate its capability further through a lending programme before being re-considered for approval.

Discussions are ongoing with representatives of the BBB in respect of the BBLS application.

10. Reasons for recommendations

The recommendations contained within this report:

- i) Have been approved in principle by full Council on 17 March 2020
- ii) To provide the Council with a vehicle to stimulate the local economy and support the recovery from Covid-19. It will enable some of the strongest SMEs to sustain and grow their business, supporting employment and prosperity in the area.
- iii) Enable HCB to demonstrate its capability managing a loan book, which is an essential requirement of obtaining Authorisation With Restriction and Full Authorisation. Once fully authorised, HCB will be able to make distributions to its founding investors and make charitable grants and donations to community causes within the Hampshire region
- iv) Achieving authorisation provides protect to the £5m equity investment made by the Council in the establishment of HCB
- v) The loans offered will be of high credit quality and within a diversified portfolio and therefore provide a low risk of default
- vi) Provide the potential for HCB to participate in Government backed schemes (e.g. relating to COVID 19 Support) that provide loans for SMEs within Hampshire

- vii) Provide a higher investment return on the Council's temporary surplus cash than could be obtained if it was invested with other institutions within the council's approved Treasury Management Strategy
- viii) Assurance related to the prospects of obtaining bank authorisation and the strength of the bank's business plan and operating policies is provided by banking experts BDO LLP and the rigor exercised by the regulators through the bank authorisation process.

11. Integrated impact assessment (IIA)

A preliminary IIA has been completed and is attached at Appendix 4

12. Legal implications

12.1 This report follows on from the resolutions of Full Council on 17 March 2020 relating to the Treasury Management Policy 2020/21 which requires the Section 151 Officer inter alia to:

- (i) *that lending to Hampshire Community Bank (HCB) will be secured on loans made by HCB to small and medium sized enterprises (SMEs) of the highest credit quality which may not in turn be secured on tangible fixed assets;*
- (ii) *That loan advances to HCB in accordance with (g) (i) above will be subject to individual approval by Cabinet.*
- (iii) *That the maximum duration of loans to HCB be reduced from 10 years to 5 years.*

As such, the legal advice provided to Full Council relating to the approved Treasury Management Policy 2020/21 is now repeated as follows. The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

13. Director of Finance's comments

13.1 HCB Limited, subject to actual financial performance, aims to pay the City Council a return equivalent to an Internal Rate of Return over 10 years of 6% on the Council's £5 million investment. HCB's ability to make these returns will be enhanced and accelerated once it has achieved full authorisation and can then take retail deposits from customers.

- 13.2 The benefits the bank will bring to the local Solent economy and the distribution of 50% of the Bank's profits for charitable purposes, mainly in Hampshire, both have the potential to improve economic growth and prosperity in the region as well as reducing the level of demand on City Council (and other Government) services, though it is not possible to quantify that potential benefit.
- 13.3 The proposed loan facility of £10m to HBC to be used for SME lending (see Section 9 above) is compliant with the City Council's Treasury Management Policy and Strategy which considers risk of any loan default as its primary consideration.

.....
Signed by:

Appendices:

Appendix 1 - Previous HCB Reports and Communications
 Appendix 2 - Current HCB Group Structure
 Appendix 3 - Biographies Trustees and Directors
 Appendix 4 - Integrated Impact Assessment

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

| Title of document | Location |
|--------------------------|-----------------|
| | |
| | |

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....
Signed by:

APPENDIX 1

1. Previous HCB reports

- 1.1 [10 July 2014](#) - Cabinet - Hampshire Community Bank ([minute 67/2014](#)). [Additional appendix](#).
- 1.2 [15 July 2014](#) - Full Council - Hampshire Community Bank ([minute 72/2014](#)) - Cabinet Recommendation from its meeting on 10 July 2014. [Additional appendix](#).
- 1.3 [3 March 2017](#) - Governance and Audit and Standards Committee - Treasury Management Policy 2017/18 ([item 6](#)). Treasury Management Policy Statement 2017/18 ([12.2](#))
- 1.4 [9 March 2017](#) - Cabinet - Treasury Management Policy 2017/18 ([item 5](#)). Treasury Management Policy Statement 2017/18 ([12.2](#))
- 1.5 [21 March 2017](#) - Full Council - Treasury Management Policy 2017/18 ([item 8](#)) - Recommendations from the Cabinet Meeting held on 9 March 2017. Treasury Management Policy Statement 2017/18 ([12.2](#))
- 1.6 [9 March 2018](#) - Governance and Audit and Standards Committee - Treasury Management Policy 2018/19 ([item 6](#)). Treasury Management Policy Statement 2018/19 ([12.2](#))
- 1.7 [16 March 2018](#) - Cabinet - Treasury Management Policy 2018/19 ([item 7](#)). Treasury Management Policy Statement 2018/19 ([12.2](#))
- 1.8 [20 March 2018](#) - Full Council - Treasury Management Policy 2018/19 ([item 9. Minute 14](#)). Treasury Management Policy Statement 2018/19 ([12.2](#))
- 1.9 [14 September 2018](#) - Governance and Audit and Standards Committee - Report on Hampshire Community Bank ([item 7](#)).
- 1.10 [8 March 2019](#) - Governance and Audit and Standards Committee - Treasury Management Policy 2019/20 ([item 6](#)). Treasury Management Policy Statement 2019/20 ([12.2](#))
- 1.11 [12 March 2019](#) - Cabinet - Treasury Management Policy 2019/20 ([item 11](#)). Treasury Management Policy Statement 2019/20 ([12.2](#))
- 1.12 [19 March 2019](#) - Full Council - Treasury Management Policy 2019/20 ([item 9](#)) - Recommendations from the Cabinet Meeting held on 12 March 2019. Treasury Management Policy Statement 2019/20 ([12.2](#))

- 1.13 [3 March 2020](#) - Governance and Audit and Standards Committee - Treasury Management Policy 2020/21 ([item 5](#)). Treasury Management Policy Statement 2020/21 ([Appendix 5.2](#))
- 1.14 [10 March 2020](#) - Cabinet - Treasury Management Policy 2020/21 ([item 11](#)). Treasury Management Policy Statement 2020/21 ([Appendix 5.2](#))
- 1.15 [17 March 2020](#) - Full Council - Treasury Management Policy 2020/21 ([item 11](#)) - Recommendations from Governance and Audit and Standards Committee held on 3 March 2020. Treasury Management Policy Statement 2020/21 ([Appendix 5.2](#))

2. Communications between HCB and Investors

- 2.1 The below table details a selection of communications between HCB Holding Ltd and its investors. A pack, containing these documents is available on request:

| Ref. | Date Issued | Related to | Document Title/Description |
|------|-------------|----------------------------|--|
| 1 | 22/09/16 | Update Report to Investors | Hampshire Community Bank Update Short Public 22 Sept 2016 |
| 2 | 10/10/16 | HCB Holding AGM (01/12/16) | Shareholder AGM 01.12.16, includes: <ul style="list-style-type: none"> - Agenda - Progress update (11/10/16), both summary and detailed - HCB Holding Ltd signed financial statements for period 01/08/15 to 30/04/16 - Community Bank Business Plan Summary |
| 3 | 10/10/16 | Update Report to Investors | Letter to Shareholders 11 October 2016 (includes update report) |
| 4 | 10/11/16 | Update Report to Investors | HCB Investor Update 10 Nov 2016 |
| 5 | 16/10/17 | HCB Holding AGM (30/10/17) | Invitation letter AMG 30Oct 2017 |
| 6 | 16/10/17 | HCB Holding AGM (30/10/17) | HCB - Annual Update Summary May 2017 |
| 7 | 16/10/17 | HCB Holding AGM (30/10/17) | Community Bank 2year Business Plan AGM 2017 |
| 8 | 16/10/17 | HCB Holding AGM (30/10/17) | HCB Holding audited accounts & statements Oct 2017 |
| 9 | 31/07/18 | Update Report to Investors | Community Bank Progress Report 31 July 2018 |

| | | | |
|----|----------|----------------------------|--|
| 10 | 05/11/18 | HCB Holding AGM (28/11/18) | Agenda HCB Holding Ltd Board Meeting 05.11.18 |
| 11 | 05/11/18 | HCB Holding AGM (28/11/18) | Consulting Agreement Local First |
| 12 | 05/11/18 | HCB Holding AGM (28/11/18) | Formal Legal Opinion Paris Smith - re: extension of longstop date |
| 13 | 05/11/18 | HCB Holding AGM (28/11/18) | HCB Foundation Articles Item 1 |
| 14 | 05/11/18 | HCB Holding AGM (28/11/18) | HCB Foundation Item 2 Resolution 2 Oct 2018 |
| 15 | 15/02/19 | HCB Holding AGM (28/11/18) | HCB AGM Minutes 28.11.18 |
| 16 | 05/11/18 | HCB Holding AGM (28/11/18) | Minutes HCB Holding BOD July 2018 |
| 17 | 08/04/19 | Update Report to Investors | Apr 2019 Report from the Executive Board of Hampshire Community Bnk final |
| 18 | 10/06/19 | Update Report to Investors | Jun 2019 Report Fr Executive Board Hampshire Community Bnk_100619 final |
| 19 | 09/10/19 | HCB Holding AGM (01/11/19) | Invitation Letter AGM 18 October 2019 |
| 20 | 09/10/19 | HCB Holding AGM (01/11/19) | HCB Holding Annual Update August 2019 |
| 21 | 09/10/19 | HCB Holding AGM (01/11/19) | 2018-19 Annual Report Board of Directors of Hampshire Community Bnk Ltd 8Oct19 |
| 22 | 09/10/19 | HCB Holding AGM (01/11/19) | HCB Bnk Business Plan 2 years 8 Oct 2019 |
| 23 | 09/10/19 | HCB Holding AGM (01/11/19) | Two Year Budget incl. Liquidity status |
| 24 | 09/10/19 | HCB Holding AGM (01/11/19) | Strategic Business Plan Excerpts from RBP 8 Oct 2019 |
| 25 | 09/10/19 | HCB Holding AGM (01/11/19) | HCB Holding Financial Statements year to 30 April 2019 |
| 26 | 09/10/19 | HCB Holding AGM (01/11/19) | Hampshire Community Bnk Financial Statements year to 30 April 2019 |
| 27 | 31/10/19 | HCB Holding AGM (01/11/19) | Updated Agenda AGM 1 Nov 2019 |
| 28 | 31/10/19 | HCB Holding AGM (01/11/19) | Signed minutes of AGM 28 Nov 2018 |
| 29 | 31/10/19 | HCB Holding AGM (01/11/19) | Signed minutes of ESM & Investor Meeting 7 January 2019 |
| 30 | 31/10/19 | HCB Holding AGM (01/11/19) | HCB Holding Ltd - Signed Accounts (year ended 30 April 2019) |

| | | | |
|----|----------|----------------------------|--|
| 31 | 31/10/19 | HCB Holding AGM (01/11/19) | Hampshire Community BNK - Signed Accounts (year ended 30 April 2019) |
| 32 | 31/10/19 | HCB Holding AGM (01/11/19) | Liquidity Budget Projections with commentary October 2019 FINAL |
| 33 | 31/10/19 | HCB Holding AGM (01/11/19) | Community Bank Heatmap_v3_301019 mitigants |
| 34 | 20/12/19 | Update Report to Investors | Shareholder Statement Final |
| 35 | 20/12/19 | Update Report to Investors | Liquidity Budget Projections with commentary December 2019 |
| 36 | 06/03/20 | Update Report to Investors | March 2020 Report for Shareholders Fr Executive Board |
| 37 | 06/03/20 | Update Report to Investors | March 2020 Liquidity Budget Projections |
| 38 | 30/04/20 | Update Report to Investors | April 2020 Report for Shareholders |
| 39 | 30/04/20 | Update Report to Investors | Liquidity Budget Projections April 2020 |
| 40 | 19/06/20 | Update Report to Investors | June 2020 Report for Shareholders Final |
| 41 | 19/06/20 | Update Report to Investors | Liquidity Budget Projections June 2020 |

APPENDIX 2

Current HCB Group Structure

Hampshire Community Bank has a three level corporate structure as follows:

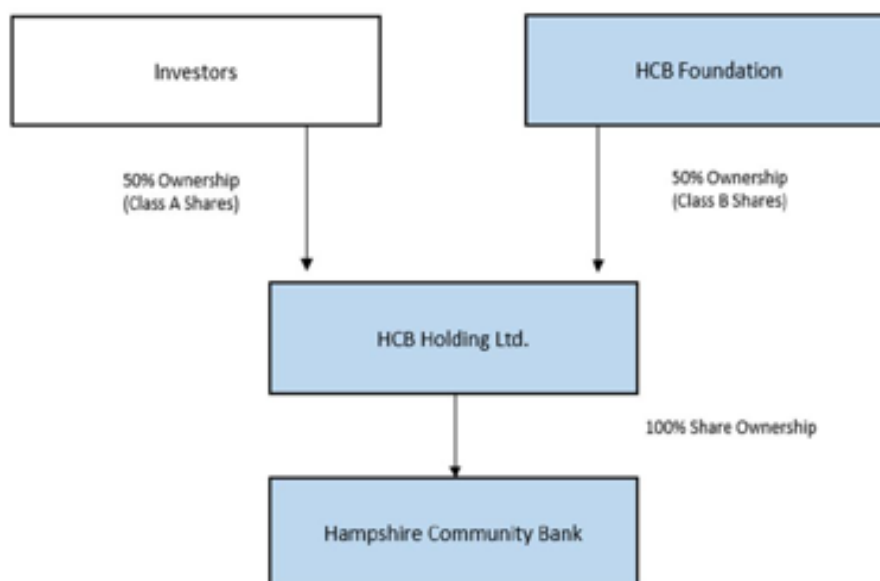


Figure A1: The Community Bank Group Structure

HCB Foundation:

- HCB Foundation is a company limited by guarantee, registered as a [Charity](#) with the Charity Commission on 5 July 2018, Charity No. 1179088 and governed by Trustees.
- A corporate governance design has been put in place to mitigate against the risk of takeover, which historical records indicate is the biggest problem when setting up a new local bank. Under UK legal framework, the strongest form of prevention of takeover and ensuring longevity is ownership by a charity for the benefit of the local people.
- Charitable Objects of the Foundation include *"To promote any charitable purposes (according to the law of England and Wales) that benefit the public primarily in Hampshire"* and *"To promote any purposes that benefit the public primarily in Hampshire; to promote any charitable purpose (according to the law of England and Wales) in the United Kingdom, if the public in Hampshire will also benefit indirectly"*.
- The Foundation has as its central purpose to own and never dispose of the Community Bank, via its ownership of 50% of HCB Holding Ltd. B Class Common Shares. These are issued whenever the investors' A class shares are issued, such that HCB Foundation will always have 50% of the vote in an AGM of HCB Holding Ltd. In addition to charitable donations from the public, the Foundation is to receive a steady income from dividends paid by the Community Bank.
- Investors in A Class Common Shares of HCB Holding Ltd obtain the benefit of 100% of the vote on the Grants Board of HCB Foundation. This body (described in section 3) which HCB Foundation will be responsible for establishing, will advise on *"allocating for charitable grants, donations and disbursements half of the funds contributed to the Charity by both the Community Bank and HCB Holding"*.
- The remainder will, for the first two decades at least, be mainly used to accumulate reserves allowing the Foundation to purchase parts of the A Class Common Shares back from the investors and/or accumulating a permanent endowment that ensures the long-term future of the Foundation and the Community Bank.
- The Foundation considers ownership in shares of HCB Holding and Hampshire Community Bnk an inalienable property and source of future permanent revenue streams to fund its charitable activities, and hence the Foundation is tasked to secure this ownership in perpetuity. HCB Foundation is able to make contributions to the capital of the Community Bank, but otherwise is to spend its funds only on charitable purposes for the benefit of the people in Hampshire.
- [Trustees](#) currently are Anne Harrison (formerly of Hampshire County Council, now retired), Sarah King (Eastleigh BC Chief Financial Officer), Shamsher Dandha (entrepreneur), Andrew Walsh (Finance Director) and Dr Richard Werner

(Professor of International Banking at the University of Southampton, previously Senior Managing Director, Bear Stearns Asset Management now JP Morgan).

HCB Holding Limited

- HCB Holding Ltd. is a company limited by shares, incorporated with Companies House on 8 July 2014, Company No. 9121398.
- HCB Holding Ltd. owns 100% of the common shares issued by Hampshire Community Bnk Ltd. All directors require approval of the regulator and hence it is expected that the majority either has financial sector or financial law experience, or experience of finance and accounting in senior positions.
- HCB Holding Limited effectively controls Hampshire Community Bnk Limited (see below) as it holds all the share capital for and can appoint and remove Directors of Hampshire Community Bnk Limited.
- This is the company in which PCC and other public sector investors have purchased shares. The shareholders have signed up to purchase 8,000 ordinary class A shares at £1,000 per share as set out below. To date shareholders have released three quarters of these funds and payment of the remaining quarter is conditional on a further Due Diligence report from banking experts, BDO LLP. PCC have therefore paid £3.75 million of the total £5 million due:
 - 5,000 - Portsmouth City Council
 - 500 - Eastleigh Borough Council
 - 250 - Winchester City Council
 - 500 - Test Valley Borough Council
 - 200 - The University of Portsmouth
 - 100 - The University of Winchester
 - 400 - The University of Southampton
 - 100 - Southampton Solent University
 - 950 - [Local First Community Interest Company](#)
- HCB Holding Ltd. is jointly and equally owned by the founding shareholders who provide the bulk of the regulatory capital, and HCB Foundation, the charity described above.
- More specifically, 50% of HCB Holding Ltd. shares are being allocated among the investors who subscribe to A Class Common Shares, yielding a dividend. These shares constitute Core Tier 1 Equity. The voting rights is divided equally among investors on the basis of one vote per investor.
- HCB Foundation owns B Class Common Shares, accounting for the other 50% of the total vote at HCB Holding Ltd. shareholders' meetings. Only a nominal value of capital is being introduced through these shares, which are classified as Additional Tier 1 Equity.

- Blake Morgan (then Blake Lapthorn) law firm drafted the articles and subscription agreement and advised on the holding company structure. This is common in banking and favoured by regulators who prefer bank shares to be held by one entity in a holding structure.
- [Directors](#) currently are Chris Ward (Chair of the HCB Holding Limited Board of Directors and PCC Section 151 Officer), Johannes Haas (General Manager, DZ Bank AG London Branch), and Dr Richard Werner (Professor of International Banking at the University of Southampton, previously Senior Managing Director, Bear Stearns Asset Management now JP Morgan).
- A minimum of one more independent non-executive director will be appointed to the board of directors in the coming year.
- Note: Within HCB's proposed original group structure (as shown in the 10 July 2014 Cabinet report), investors in HCB Holding Ltd were to be issued with preference shares (which do not give any voting rights, but instead guarantee a fixed dividend, which has priority over any dividend paid to other shareholders). However, changes to bank regulation and in particular to capital adequacy ("Basel") rules (CRD IV, CRR) effective from 2014, meant that the original structure with preference shares could not be implemented. Hence, the current group structure was developed, with significant input from the legal advisors Blake Morgan (then Blake Lapthorn) and external consultants BDO.

Hampshire Community Bnk Limited (HCB)

- Hampshire Community Bnk Ltd. is a company limited by shares with standard articles of association, incorporated with Companies House on 15 April 2014, Company No. 8997051.
- This company is 100% owned by HCB Holding Ltd. It will, upon authorisation by the Prudential Regulatory Authority and the Financial Conduct Authority, provide a range of community banking services.
- This is the company which is seeking authorisation from the Bank of England to operate as a bank. The name includes the word "Bnk" because a company name cannot include the word "Bank" until it is authorised to operate as a bank by the Bank of England.
- As described above HCB Holding Ltd Board has the power to appoint or remove Hampshire Community Bnk Limited directors.
- Directors currently are Johannes Haas (General Manager, DZ Bank AG London Branch), Andreas Neukirch (Director of Operations, Hampshire Community BNK Ltd), Bernd Grund (Director of Sales, Hampshire Community BNK Ltd) and Dr Richard Werner (Professor of International Banking at the University of

Southampton, previously Senior Managing Director, Bear Stearns Asset Management now JP Morgan).

- The Articles of the company place no limit to the number of Directors, but there must be a minimum of two. A minimum of one more independent non-executive director will be appointed to the board of directors in the coming year.

APPENDIX 3

HCB Foundation

- Registered charity
- A charity for the benefit of the people of Hampshire
- Charitable disbursements in accordance with the rules of the Charity Commission
- 50% shareholder in HCB Holding
- A Grants Board consisting of delegates from the shareholders of HCB Holding will advise the trustees on the disbursement of 50% of the charitable disbursements

DIRECTORS

Trustee

Shamsher Dhanda

- Graduate banking researcher at the University of Southampton
- More than 10 years financial modelling and research analyst experience
- Analyst and Performance Reporting Lead, Secure Trust Bank
- Data modelling and research analyst, Taxlite Financial Consulting



Trustee

Anne Harrison

- Now retired, a volunteer in local community engagement with a passion for Hampshire.
- Previously, Village Agents Coordinator for Age Concern Hampshire, covering the whole of the county
- As Market Towns Project Manager for Hampshire County Council, managed £1.25m rural grant programme for SEEDA over 10 years via the Economic Development Office (EDO)
- Continued as Rural Regeneration Officer, Hampshire County Council, facilitating a programme of grants and support for rural shops via the EDO



Trustee**Sarah King**

- Eastleigh Borough Council Corporate Director of Support Services and Chief Financial Officer

**Trustee****Andrew Walsh**

- Chartered Accountant with extensive CFO experience in private and public companies
- Associate of Balkan Financial Sector Equity Fund and Chair of various microfinance businesses in Eastern Europe
- Leadership consultant and coach, having established a Winchester-based consultancy
- Pro bono adviser to small businesses

**Trustee****Richard A Werner**

- Professor of Banking and Finance
- Director, Centre for Research on Accountability, Governance and Sustainability, De Montfort University, Leicester
- Proponent of the original 'Quantitative Easing', Japan 1995
- Researcher on the benefits of decentralised banking systems consisting of small local banks



HCB Holding Ltd.

- Holding company, owning 100% of the shares in Hampshire Community Bnk Ltd.
- Issuer of the shares held by the stakeholders

DIRECTORS

Chairman

Chris Ward

- More than 25 years' experience in Local Government
- Current Roles:
 - Director of Finance & Resources, Portsmouth City Council
 - Director of Finance, Isle of Wight Council
 - Borough Treasurer, Gosport Borough Council
 - Chief Financial Officer, Solent Local Enterprise Partnership
 - Chairman, Portico Shipping Limited
 - Director, Victory Energy Supply Limited
- Head of Finance, Portsmouth City Council
- Chief Accountant, Portsmouth City Council



Senior Independent Director

Johannes Haas

- More than 20 years senior level banking experience in the major international financial centres
- Director DZ Bank AG, London
- Sous-Directeur, Private Banking DZ Privatbank SA. Luxembourg
- Managing Director, Private Banking DZ Privatbank, Singapore.
- Chief Operating Officer (General Manager; Senior VP) DZ Bank AG, New York.
- Head of Business Development, DZ Bank AG, Frankfurt.



Director

Richard A Werner

- More than 30 years financial sector experience
- Senior Managing Director, Bear Stearns Asset Management (now JP Morgan Asset Management)
- Senior Portfolio Manager, Bear Stearns Global Alpha Fund
- Chief Economist, Jardine Fleming Securities (Asia) Ltd. (now JP Morgan Asia Securities).
- Senior Manager, VR Bank Landau, Germany: deputy head corporate client department
- Intern/Trainee, Deutsche Bank in Munich, New York & Tokyo.



Hampshire Community Bnk Ltd.

- The Community Bank, presently in the process of obtaining regulatory authorisation as a bank
- 100% owned by HCB Holding Ltd.

DIRECTORS

Chairman

Richard A Werner

as above

Managing Director and Director of Operations

Andreas Neukirch

- More than 30 years banking experience
- 14 years CFO, CRO at *GLS Bank, Germany (Total assets E4.5bn, 500 employees)*
- Division Manager Services, *Volksbank Lippstadt eG, Lippstadt (Total Assets €800m, 180 employees)*
- Branch manager/corporate client consultant, *Volksbank Brühl eG (Total Assets €140m, 200 employees)*
- Training DZ Bank, *Düsseldorf (Total Assets €40bn, 800 staff).*



Director

Bernd Grund

- More than 30 years banking experience
- 16 years of bank director experience at two co-operative banks in Germany (*Harzer Volksbank and Osttharzer Volksbank*)
- 10 years Director and Chief of Sales and Marketing, focusing on SME loans
- 6 years Director and CFO in charge of back-office, *Harzer Volksbank*
- Also experience at *Volksbank Halberstadt*
- Training: *Commerzbank AG*.



Senior Independent Director

Johannes Haas

- More than 20 years senior level banking experience in the major international financial centres
- Director DZ Bank AG, London
- Sous-Directeur, Private Banking DZ Privatbank SA. Luxembourg
- Managing Director, Private Banking DZ Privatbank, Singapore.
- Chief Operating Officer (General Manager; Senior VP) DZ Bank AG, New York.
- Head of Business Development, DZ Bank AG, Frankfurt.



Head of Risk & Compliance

Jonathan Birrell-Gray

- More than 30 years banking and risk experience
- Interim Director of Operational Risk for Global Markets, *Bank of America Merrill Lynch, London*
- Executive Director, CFO and Operational Risk Manager, *Portigon AG [formerly WestLB AG]*
- Executive Director Financial Processes and Systems, *Global Project Management for Finance, Portigon AG*
- Financial Controller / CFO, Statutory and Regulatory Reporting, Taxation, *Banque National de Paris plc and London Branch*.





Integrated Impact Assessment (IIA)

Integrated impact assessment (IIA) form December 2019

www.portsmouth.gov.uk

The integrated impact assessment is a quick and easy screening process. It should:

- identify those policies, projects, services, functions or strategies that could impact positively or negatively on the following areas:
 - Communities and safety
 - Regeneration and culture
 - Environment and public space
 - Equality & - Diversity This can be found in Section A5

Directorate:

Finance and Resources

Service, function:

Financing SMEs in Hampshire

Title of policy, service, function, project or strategy (new or old) :

Hampshire Community BNK Ltd.
Community Bank founding project

Type of policy, service, function, project or strategy:

- ☒ Existing
- ☐ New / proposed
- ☐ Changed

What is the aim of your policy, service, function, project or strategy?

The overall aim of the project is to provide financial services in particular loans to SMEs within the region of Hampshire. This will support local business and scale up their employment opportunities.

Has any consultation been undertaken for this proposal? What were the outcomes of the consultations? Has anything changed because of the consultation? Did this inform your proposal?

No local formal consultation, however, the project is based on large and long scale economic and social research in Hampshire. The Bank of England has always confirmed that increased SME financing will always be required.

A - Communities and safety

Yes

No

Is your policy/proposal relevant to the following questions?

A1-Crime - Will it make our city safer?



In thinking about this question:

- How will it reduce crime, disorder, ASB and the fear of crime?
- How will it prevent the misuse of drugs, alcohol and other substances?
- How will it protect and support young people at risk of harm?
- How will it discourage re-offending?

If you want more information contact Lisa.Wills@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/cou-spp-plan-2018-20.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

With the higher level of local employment options that the project will create, it is believed that this will contribute to discourage potential re-offending and reduce crime levels.

How will you measure/check the impact of your proposal?

Surveys on re-offenders going into work in the future could be undertaken.

A - Communities and safety

Yes

No

Is your policy/proposal relevant to the following questions?

A2-Housing - Will it provide good quality homes?



In thinking about this question:

- How will it increase good quality affordable housing, including social housing?
- How will it reduce the number of poor quality homes and accommodation?
- How will it produce well-insulated and sustainable buildings?
- How will it provide a mix of housing for different groups and needs?

If you want more information contact Daniel.Young@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/psh-providing-affordable-housing-in-portsmouth-april-19.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

How are you going to measure/check the impact of your proposal?

A - Communities and safety

Yes

No

Is your policy/proposal relevant to the following questions?

A3-Health - Will this help promote healthy, safe and independent living?



In thinking about this question:

- How will it improve physical and mental health?
- How will it improve quality of life?
- How will it encourage healthy lifestyle choices?
- How will it create healthy places? (Including workplaces)

If you want more information contact Dominique.Letouze@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/cons-114.86-health-and-wellbeing-strategy-proof-2.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

The Community Bank are currently already lending to green and healthy SMEs such as Bike Shops and Healthy 'vegan' cafes etc. under their Green Growth Loan programme. Lending to these types of businesses will only expand under the proposed loan agreements.

How are you going to measure/check the impact of your proposal?

Monitoring of numbers of these types of organisations within the Community Banks loan portfolio.

A - Communities and safety

Yes

No

Is your policy/proposal relevant to the following questions?

A4-Income deprivation and poverty-Will it consider income deprivation and reduce poverty?



In thinking about this question:

- How will it support those vulnerable to falling into poverty; e.g., single working age adults and lone parent households?
- How will it consider low-income communities, households and individuals?
- How will it support those unable to work?
- How will it support those with no educational qualifications?

If you want more information contact Mark.Sage@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/cou-homelessness-strategy-2018-to-2023.pdf>

<https://www.portsmouth.gov.uk/ext/health-and-care/health/joint-strategic-needs-assessment>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

The Community Bank's SME customers will be funded to create more jobs, a criteria of HCB's lending policy is that the customer will create and maintain current jobs in the area.

How are you going to measure/check the impact of your proposal?

HCB monitor and ask customers before and during the loan, what jobs will be created and/or maintained.

A - Communities and safety

Yes

No

Is your policy/proposal relevant to the following questions?

A5-Equality & diversity - Will it have any positive/negative impacts on the protected characteristics?



In thinking about this question:

- How will it impact on the protected characteristics-Positive or negative impact (Protected characteristics under the Equality Act 2010, Age, disability, race/ethnicity, Sexual orientation, gender reassignment, sex, religion or belief, pregnancy and maternity, marriage and civil partnership,socio-economic)
- What mitigation has been put in place to lessen any impacts or barriers removed?
- How will it help promote equality for a specific protected characteristic?

If you want more information contact gina.perryman@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/cmu-equality-strategy-2019-22-final.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

HCB's conduct policy and the guideline of all its activities is based on all the options to make sure that diversity will be created and discrimination is eradicated.

How are you going to measure/check the impact of your proposal?

B - Environment and climate change

Yes

No

Is your policy/proposal relevant to the following questions?

B1-Carbon emissions - Will it reduce carbon emissions?



In thinking about this question:

- How will it reduce greenhouse gas emissions?
- How will it provide renewable sources of energy?
- How will it reduce the need for motorised vehicle travel?
- How will it encourage and support residents to reduce carbon emissions?

If you want more information contact Tristan.thorn@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/cmu-sustainability-strategy.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

The Community Banks lending portfolio will include green projects throughout Hampshire. They are also part of the Future South Board, supported by PCC already.

How are you going to measure/check the impact of your proposal?

These types of businesses will be present in HCB's loan portfolio, and therefore will be monitored.

B - Environment and climate change

Yes

No

Is your policy/proposal relevant to the following questions?

B2-Energy use - Will it reduce energy use?



In thinking about this question:

- How will it reduce water consumption?
- How will it reduce electricity consumption?
- How will it reduce gas consumption?
- How will it reduce the production of waste?

If you want more information contact Triston.thorn@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/pln-portsmouth-plan-post-adoption.pdf>

<https://democracy.portsmouth.gov.uk/documents/s24685/Home%20Energy%20Appendix%201%20-%20Energy%20and%20water%20at%20home%20-%20Strategy%202019-25.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

The Community Banks lending portfolio will include green projects throughout Hampshire. They are also part of the Future South Board, supported by PCC already.

How are you going to measure/check the impact of your proposal?

These types of businesses will be present in HCB's loan portfolio, and therefore will be monitored.

B - Environment and climate change**Yes****No**

Is your policy/proposal relevant to the following questions?

B3 - Climate change mitigation and flooding-Will it proactively mitigate against a changing climate and flooding?



In thinking about this question:

- How will it minimise flood risk from both coastal and surface flooding in the future?
- How will it protect properties and buildings from flooding?
- How will it make local people aware of the risk from flooding?
- How will it mitigate for future changes in temperature and extreme weather events?

If you want more information contact Tristan.thorn@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/env-surface-water-management-plan-2019.pdf>

<https://www.portsmouth.gov.uk/ext/documents-external/cou-flood-risk-management-plan.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

The Community Banks lending portfolio will include green projects throughout Hampshire. They are also part of the Future South Board, supported by PCC already. Therefore it is hoped through this it will help fight climate change.

How are you going to measure/check the impact of your proposal?

These types of businesses will be present in HCB's loan portfolio, and therefore will be monitored.

B - Environment and climate change**Yes****No**

Is your policy/proposal relevant to the following questions?

B4-Natural environment-Will it ensure public spaces are greener, more sustainable and well-maintained?



In thinking about this question:

- How will it encourage biodiversity and protect habitats?
- How will it preserve natural sites?
- How will it conserve and enhance natural species?

If you want more information contact Daniel.Young@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/pln-solent-recreation-mitigation-strategy-dec-17.pdf>

<https://www.portsmouth.gov.uk/ext/documents-external/pln-portsmouth-plan-post-adoption.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

How are you going to measure/check the impact of your proposal?

B - Environment and climate change**Yes****No**

Is your policy/proposal relevant to the following questions?

B5-Air quality - Will it improve air quality?☐☒

In thinking about this question:

- How will it reduce motor vehicle traffic congestion?
- How will it reduce emissions of key pollutants?
- How will it discourage the idling of motor vehicles?
- How will it reduce reliance on private car use?

If you want more information contact Hayley.Trower@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/env-aq-air-quality-plan-outline-business-case.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

How are you going to measure/check the impact of your proposal?

B - Environment and climate change**Yes****No**

Is your policy/proposal relevant to the following questions?

B6-Transport - Will it improve road safety and transport for the whole community?☒☐

In thinking about this question:

- How will it prioritise pedestrians, cyclists and public transport users over users of private vehicles?
- How will it allocate street space to ensure children and older people can walk and cycle safely in the area?
- How will it increase the proportion of journeys made using sustainable and active transport?
- How will it reduce the risk of traffic collisions, and near misses, with pedestrians and cyclists?

If you want more information contact Pam.Turton@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/travel/local-transport-plan-3>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

The Community Bank are currently already lending to Bike Shops under their Green Growth Loan programme. Lending to these types of businesses will only expand under the proposed loan agreements as well as other transport oriented companies.

How are you going to measure/check the impact of your proposal?

These types of businesses will be present in HCB's loan portfolio, and therefore will be monitored.

B - Environment and climate change

Yes

No

Is your policy/proposal relevant to the following questions?

B7-Waste management - Will it increase recycling and reduce the production of waste?



In thinking about this question:

- How will it reduce household waste and consumption?
- How will it increase recycling?
- How will it reduce industrial and construction waste?

If you want more information contact Steven.Russell@portsmouthcc.gov.uk or go to:

<https://documents.hants.gov.uk/mineralsandwaste/HampshireMineralsWastePlanADOPTED.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

The Community Bank are already lending to a specialist recycling SME who aims to help increase recycling under their Green Growth Loan programme. Lending to these types of businesses will only expand under the proposed loan agreements.

How are you going to measure/check the impact of your proposal?

These types of businesses will be present in HCB's loan portfolio, and therefore will be monitored.

C - Regeneration of our city

Yes

No

Is your policy/proposal relevant to the following questions?

C1-Culture and heritage - Will it promote, protect and enhance our culture and heritage?



In thinking about this question:

- How will it protect areas of cultural value?
- How will it protect listed buildings?
- How will it encourage events and attractions?
- How will it make Portsmouth a city people want to live in?

If you want more information contact Claire.Looney@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/pln-portsmouth-plan-post-adoption.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

N/A

How are you going to measure/check the impact of your proposal?

N/A

C - Regeneration of our city

Yes

No

Is your policy/proposal relevant to the following questions?

C2-Employment and opportunities - Will it promote the development of a skilled workforce?



In thinking about this question:

- How will it improve qualifications and skills for local people?
- How will it reduce unemployment?
- How will it create high quality jobs?
- How will it improve earnings?

If you want more information contact Mark.Pembleton@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/cou-regeneration-strategy.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

The Hampshire Community Bank's purpose is to support micro and small SMEs with funding to enable existing businesses to grow and new business start ups to start trading.

There is considerable empirical evidence that the high street banks have reduced lending to SMEs in the region. Equally, the failure to lend to SMEs results in a negative impact on GDP. However, in those countries and areas of the UK where SMEs are supported there is significant economic growth.

How are you going to measure/check the impact of your proposal?

HCB will maintain statistics on the number of new jobs created and the number of jobs safeguarded as a result of the loans that the

Community Bank advances.

C - Regeneration of our city

Yes

No

Is your policy/proposal relevant to the following questions?

C3 - Economy - Will it encourage businesses to invest in the city, support sustainable growth and regeneration?



In thinking about this question:

- How will it encourage the development of key industries?
- How will it improve the local economy?
- How will it create valuable employment opportunities for local people?
- How will it promote employment and growth in the city?

If you want more information contact Mark.Pembleton@portsmouthcc.gov.uk or go to:

<https://www.portsmouth.gov.uk/ext/documents-external/cou-regeneration-strategy.pdf>

Please expand on the impact your policy/proposal will have, and how you propose to mitigate any negative impacts?

The Hampshire Community Bank's purpose is to support micro and small SMEs with funding to enable existing businesses to grow and new business start ups to start trading.

There is considerable empirical evidence that the high street banks have reduced lending to SMEs in the region. Equally, the failure to lend to SMEs results in a negative impact on GDP. However, in those countries and areas of the UK where SMEs are supported there is significant economic growth.

Also, the Community Bank will, as part of its credit risk management, be looking to have a diversified portfolio of industries, support new industries, support community interest companies, but will not lend to those industries that are deemed unethical or have a negative impact on climate change.

Therefore, support will be able to be provided by loans that will be tailored for the needs of each SME and be subject to strict maximum lending criteria dependent upon the credit weighting and considerations of the Community Bank's loan officers.

How are you going to measure/check the impact of your proposal?

HCB will maintain statistics on the number of new jobs created and the number of jobs safeguarded as a result of the loans that the Community Bank advances.

Q8 - Who was involved in the Integrated impact assessment?

William Taylor (PCC - Senior Finance and Commercial Analyst). The Executive Committee of the Hampshire Community Bank

This IIA has been approved by: Chris Ward

Contact number: 02392 834423

Date: 07/09/20