Portsmouth CITY COUNCIL

Agenda item:

Decision maker:	Cabinet City Council
Subject:	Capital Programme 2012/13 to 2017/18
Date of decision:	11th February 2013 (Cabinet) 12th February 2013 (City Council)
Report by:	Head of Finance and Section 151 Officer
Wards affected:	All
Key decision:	Yes
Budget & policy framework decision:	Yes

---

1. Executive Summary

1.1 The Capital Programme proposed by the Administration seeks to support schools in improving educational attainment by investing £6.8m into school buildings and targeting those resources at schools with the most critical building needs.

1.2 The Capital Programme has also been designed to seek to provide the catalyst to unlock the economic potential of the City by enabling preliminary project work to commence on Tipner Land Remediation & Sea Defences, Dunsbury Hill Farm Development and the Horsea Island Bridge Link with the expectation that these schemes will attract £53.25m of inward investment.

1.3 Significant investment continues to be made into core services such as Private Sector Housing, Transportation and Central Services, enabling them to fulfil their statutory obligations and function effectively.

1.4 To deliver these high impact schemes the Administration proposes for a second successive year to "stretch" the Capital Resources available by relying on further future years' capital grant allocations. The price, therefore, of delivering these high impact schemes is to reduce the resources that would otherwise be available in future years. The Administration considers that this is the best way of utilising capital resources in accordance with the Capital Strategy.

2. Purpose

2.1 The purpose of this report is to:

- Summarise the key features of the Capital Strategy approved by the City Council on 4th February 2009 and the revised Capital Investment Priorities of the City Council, approved by City Council on 24th January 2012

- Highlight the inter-relationship between the capital programme and the revenue budget

- Determine the corporate capital resources available including:

    - Adjustments for under and overspendings to the existing approved Capital Programme

- Seek approval of the overall Capital Programme (including the Housing Investment Capital Programme) for 2012/13 and future years in accordance with the Capital Strategy

- Avoid having to pay over to the Government up to 50% of capital receipts from disposals of council housing assets

- Describe and approve the Prudential Indicators arising from the revised Capital Programme 2012/13 to 2017/18 including the impact of Housing Self Financing

- Delegate authority to the Head of Finance and Section 151 Officer to alter the mix of capital funding to make best use of City Council resources

3. Recommendations

3.1 It is recommended that:

1) The Revised Capital Programme 2012/13 to 2017/18 attached as Appendix 1 which includes all additions, deletions and amendments for slippage and re-phasing described in Sections 6 and 8 be approved.

2) The passported Capital Allocations (Ring-fenced Borrowing and Grants) as set out in Section 7 be noted.

3) The Head of Finance and Section 151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council.

4) For the purposes of the Local Authorities (Capital Finance) (Amendment) Regulations 2003 the City Council resolve to spend up to £20 million on affordable housing each year between 2012/13 and 2014/15. Furthermore, that the capital receipts arising in each year from the disposal of surplus HRA assets be used 100% for the provision of affordable housing or regeneration schemes.

5) Given the impending changes to the Capital Financing Regulations, the Section 151 Officer has delegated authority to amend recommendation 4 in the event that it would no longer be in the best financial interests of the Council to allocate these specific resources to regeneration schemes.

6) The Archive Store be declared surplus to requirements.

7) The following schemes as described in Section 9 and Appendix 2 be reflected within the recommended Capital Programme 2012/13 to 2017/18 and be financed from the available corporate capital resources:

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
Children & Education:			
	ICS Replacement – Reshaping Children's Social Care	750,000	750,000
	School Condition Projects	1,800,000	1,800,000
	Supply of School Places	4,960,000	4,960,000
Culture, Leisure & Sport:			
	Drayton Park – Refurbishment of Tennis Courts	135,000	135,000
	ARTches Project	100,000	1,750,000
	Lighting from Square Tower to Round Tower	50,000	50,000
	Rock Gardens – Replacement of CCTV Cameras	20,000	20,000
	New Library in Drayton	100,000	100,000
	Southsea Seafront Investment (Exc. Pyramids Centre)	250,000	250,000
	Re-location of Archive Store – Southsea Library 1st Floor	600,000	600,000
	Kings Theatre Capital Grant	200,000	200,000
Environment & Community Safety:			
	Horsea Island Country Park	154,000	184,200
Housing:			
	Support For Vulnerable People	900,000	1,016,000
Planning, Regeneration & Economic Development:			
	Tipner Land Remediation and Sea Defences	78,000	10,004,000
	Cosham High Street	200,000	200,000
Commercial Port			
	Berth Five Linkspan	100,000	100,000
	Demolition of Floating Dock Jetty	500,000	2,500,000
Resources:			
	Dunsbury Hill Farm – Access Road and Infrastructure Scheme	100,000	8,250,000
	Landlords Maintenance	1,050,000	1,050,000
	Landlords Maintenance – Capital Contingency	196,000	196,000
	Replace Oldest Quay Tugs (MMD)	30,000	100,000
Traffic & Transportation:			
	Local Transport Plan 3	600,000	935,000
Total Recommended Sum to be Approved		**12,873,000**	**35,150,200**

8) As outlined in Section 10, the City Council note that none of the recommended new capital schemes are required to be approved as invest to save schemes to be funded from Prudential Borrowing.

9) As outlined in Section 11, the following Capital schemes be approved as Invest to Save schemes and funded from the MTRS Reserve:

	Total MTRS Funding £
Automatic Line Handling Scheme	500,000
Replace Oldest Quay Tugs (MMD)	70,000
Purchase of Haulage Trailers (MMD)	63,000
Voltage Reduction & Power Cleaning (MMD)	130,000
Legal Case Management Software	96,000
Total Recommended Sum to be Approved	**859,000**

10) The City Council note that Prudential Borrowing can only be used as a source of capital finance for Invest to Save Schemes as described in Section 12.

11) The Prudential Indicators described in Section 12 and set out in Appendix 3 be approved.

4. Background

4.1 On the 4th February 2009 the City Council approved the Capital Strategy 2008 - 2018. The key features of that strategy, which have been considered in the development of the Administration's Capital Programme proposals, are as follows:

- Contribution to the Corporate Plan & Vision for Portsmouth for non commercial activities
- Rate of return and payback for commercial activities
- Retention of Community Assets
- Retention and maintenance of Heritage Assets
- The extent and level of surety of external funding
- The use of Capital Investment Options Appraisal
- A whole life cost approach to Capital Investment
- Delivery of Value for Money
- The approach to risk - the expected benefits must outweigh the risk
- Any overspendings on approved Capital Schemes being the first consideration for the use of any available capital resources

4.2 On 24th January 2012 the City Council approved the "Capital Investment Aspirations and Priorities 2011/12 and the Future". This update report to the Capital Strategy 2008 – 2018 revised the Capital Investment Priorities, as the Capital Strategy was in its 3rd year, and proposed the following categories of Capital Schemes that are the priorities for attracting Corporate Capital Funding:

- **Category 1** - Programmes of a recurring nature that are essential to maintain operational effectiveness

- **Category 2** - Specific schemes that:

    - Have a significant catalytic potential to unlock the regeneration of the City

    - Are significant in terms of the Council strategies that they serve

    - Are significantly efficiency generating

    - If not implemented would cause severe disruption to Service delivery

4.3 The Capital Programme for 2013/14 will be the fourth year that fully embraces the revised financial framework for allocating capital resources to new capital schemes. The financial framework approved within the Capital Strategy has evolved from the previous framework based on passporting, to one that is designed to offer Members greater choice and transparency with the overall aim of delivering better outcomes from the resources available. It seeks to strike the correct balance of allocating capital resources between short and medium term needs and priorities and longer term aspirations, in order to support the delivery of the 10 year Capital Strategy.

4.4 Previously, significant sums of non ring-fenced capital allocations from Government plus Housing Capital Receipts were passported directly to Portfolios such as:

- Local Transport Plan (LTP) capital allocations to the Traffic & Transportation Portfolio

- Education capital allocations to the Education Portfolio

- Social Services capital allocations to Health & Social Care Portfolio

- Housing "Right to Buy" capital receipts to the Housing Portfolio

4.5 The financial framework adopted from 2010/11 onwards, as approved in the Capital Strategy, moved to a framework based on the concept of pooling all non ring fenced capital resources and matching those resources to those Capital Investment needs, priorities and aspirations of the Council that cannot be funded from ring fenced capital resources.

5. Considerations in Formulating the Revised & Future Capital Programme

5.1 In considering the revised Capital Programme for 2012/13 and the future Capital Programme for 2013/14 to 2017/18, the following factors have been taken into account:

- The Council's Capital Strategy, which informs the capital investment needs, priorities and aspirations of the Council
- The degree of uncertainty that exists over the costs of current capital schemes and whether these are adequately resourced
- Any over or underspendings against approved capital schemes
- The priority and immediacy of new capital schemes and the revenue impacts of those capital schemes
- The availability of capital resources and the potential risks associated with those capital resources being realised
- The inter-relationship with the Revenue Budget, in particular the additional revenue costs associated with the proposed new capital schemes
- The effective exclusion of the use of Prudential Borrowing, except for Invest to Save schemes, arising from the unaffordability of its associated borrowing costs

5.2 To determine the capital resources available, all capital funding sources have been reviewed. This review covered all of the resources anticipated to be available over the medium term. In assessing the level of anticipated capital resources available, a prudent and responsible approach has been taken and only those resources that have a high degree of certainty and that are likely to be available within a reasonable time frame have been included.

6. Revised Capital Programme – 2012/13 to 2017/18

6.1 Since the revised Capital Programme 2011/12 to 2016/17 was approved in February 2012, other schemes that have not required corporate capital resources have been added to the recommended Capital Programme shown in Appendix 1. These schemes have been funded from sources such as Specific Grants, Contributions or other scheme specific capital resources.

6.2 The Capital Programme approved in February 2012 (incorporating the Housing Investment programme) has been further revised to reflect additions, changes, under and overspendings, slippage and revised phasing of capital schemes. Further details of these changes are set out in Section 8. The revised capital programme for 2012/13 and beyond is attached at Appendix 1 and is recommended for approval.

7. Passported Capital Allocations (Grants & Borrowing Allocations)

7.1 The 2011/12 Capital Grant settlement included a total reduction in the value of grants compared to 2010/11 of 27% and a 100% reduction in the level of borrowing approvals. Combined this represented a 46% reduction in the level of capital funding awarded by Government Departments compared to 2010/11.

7.2 To ensure councils were able to make their own choices about making the most of these grants, with the exception of the schools Devolved Formula Capital Grant, grants had either their “ring-fence” removed or were amalgamated to form a new “non ring-fenced” capital grant.

7.3 Set out below is the current position on all new ring-fenced Grants Allocations for 2013/14. The allocation is passported directly to the relevant Portfolio so that they can be applied in accordance with the conditions for their use.

Grant	Grant Description	Allocation £000
Children’s & Education Services:		
Devolved Formula	Devolved Formula Capital Grant (DFCG) is a Standards Fund grant that allocates capital funding to schools. The grant is used to fund capital improvements/maintenance, remodelling and/or new build.	Not yet known
Total Ring Fenced Grant Allocations		

7.4 Department for Education capital funding proposals are normally notified to councils in December of each year. However, the Department is currently not expected to announce 2013/14 Devolved Formula Capital Grant allocations until February 2013 as the Department is still finalising School Capacity Collection data returns from local authorities, upon which allocations are calculated. The delay in the announcement of this grant does not impact upon any decisions required within this report as the grant is ring fenced and passported directly to schools.

7.5 From 2011/12 the capital grant settlement withdrew £2m annual Private Sector Renewal Support Grant required for supporting vulnerable people and tackling disrepair in private housing. Continued support now needs to be funded from Corporate Capital Resources and the Administration’s proposals in respect of this are set out later in this report.

8. Forecast of Corporate Capital Resources (Non Passported) 2013/14 & Beyond

8.1 The forecast of corporate capital resources (i.e. non passported sources of finance) available to the City Council for new capital schemes comprise the following and are described in more detail in the paragraphs below:

- Contributions to the “Corporate Pool” of all non ring-fenced capital allocations from Government (i.e. Non ring-fenced Grants and Supported

Borrowing Allocations), commonly referred to as the “Single Capital Pot” allocations

- The anticipated balance on the Revenue Reserve for Capital

- Changes to the existing Capital Programme - additions or deductions for any changes in the costs or funding requirements associated with the existing capital programme

- Any, as yet, uncommitted capital schemes where the funding for those schemes could be re-directed to new schemes which have subsequently become a higher priority

- Any allowances for Prudential Borrowing (unsupported borrowing)

- The forecast value of additional capital receipts taking into account:

    - New assets declared surplus to requirements

    - Any increase or decrease in the estimated value of existing assets to be disposed of

    - Any requirements to provide for affordable housing, parking or any other conditions which could have a significant impact on the disposal value and other costs associated with disposal

- Other Corporate Capital Grants & Contributions e.g. Community Infrastructure Levy

- Any Revenue Contributions to Capital

<u>Contributions to the Corporate Pool including the “Single Capital Pot” allocations</u>

8.2 The Council receives allocations of capital funding each year under the guise of the “Single Capital Pot”. The “Single Capital Pot” is not a grant or capital allocation in itself but is a term used to define all non ring-fenced Government Supported Capital Expenditure (either Grant or Supported Borrowing).

8.3 Government Supported capital expenditure is a combination of bid based and formula based allocations. These allocations can either take the form of a direct Capital Grant or Borrowing Allocation for which the Government provides full financial support through the Formula Grant to cover the future debt servicing costs.

8.4 The Single Capital Pot is intended to be a non ring-fenced source of finance and available for directing towards the priorities of the Authority. In practice however, the Single Capital Pot allocations are notified to individual Authorities in terms of the amounts that each Government Department has contributed. Furthermore, those Government Departments have an expectation that the amounts that they have allocated to each Authority will be directed towards their services. If these sums are not spent in the areas to which they are allocated, it is possible that future allocations could be jeopardised. This practice is contradictory to the principles of both the Single Capital Pot and the Council's Capital Strategy that is now in place.

8.5 In addition, there are other non ring-fenced sources of capital funding that are now Corporately Pooled such as:

- Capital Receipts from the Sale of Council Houses
- Capital Receipts from the Sale of other HRA Assets (but must be used to finance Affordable Housing or Regeneration schemes)
- Section 106 Contributions

8.6 The allocations which were previously passported directly to Portfolios and which now contribute towards the "Corporate Pool" as part of the overall sum of Capital Resources available are as follows:

Contributions to Corporately Pooled Resources		**£000**	**£000**
Culture, Leisure & Sport:			
Section 106			418
Education:			
LA Basic Need	- 2013/14	1,321	
	- 2014/15	1,168	
	- 2015/16	1,051	
DfE – Capital Maintenance		2,303	
Section 106		120	
			5,963
Health & Social Care:			
DoH Capital Grant	- 2013/14 Uncommitted Balance	29	
	- 2014/15 Uncommitted Balance	39	
			68
Housing:			
Disabled Facilities Grants		630	
Capital Receipts – Sale of Council Houses		327	
			957
Traffic & Transportation:			
Local Transport Plan – Integrated Transport Block			
	- 2013/14 Uncommitted Balance	993	
	- 2014/15	98	
Section 106 Contributions		365	
			1,456
Community Infrastructure Levy (amendment to est.)			(153)
Total Contributions to Corporate Pool			**8,709**

8.7 The Capital Strategy provides an exception to Corporate Pooling for receipts from the sale of “Other Housing” assets where the Council makes a formal determination under the existing Local Authorities (Capital Finance) (Amendment) Regulations that they will be used for affordable housing or regeneration schemes. If this determination is not made then 50% of these receipts would have to be paid to the Government. Recommendation 4 to this report sets the formal determination level at £20m for the three years 2012/13 to 2014/15. The £20m level gives significant headroom over the budgeted level of capital receipts and the approval through to 2014/15 gives some short term stability to the Housing Investment Programme of renewal & improvement for public & private housing.

8.8 The Department for Communities and Local Government (DCLG) have issued a paper, proposing to exclude these receipts from the pooling process from 1st April 2013. This proposal is currently out for consultation, but would result in such receipts no longer being earmarked for housing and regeneration, but instead treated as any other corporate resource and able to fund any capital project. Whilst this proposed new freedom benefits the Capital Programme, The DCLG have stated that where the receipt is used for a non HRA purpose, then the equivalent level of debt must transfer from the HRA to the General Fund. This ensures that the appropriate level of debt follows the receipt. The impact of this change would result in additional revenue costs to the General Fund in the form of debt payments, should it decide to use an HRA receipt for a non HRA purpose.

8.9 It should be noted that the maintenance element of the Local Transport Plan (LTP) has not been pooled and is earmarked to fund part of the Unitary Charge paid to Colas under the Highways PFI contract. This amounts to £1.309m in 2013/14.

8.10 It should also be noted that the administration propose to rely on all of the LA Basic Need Grant for the years 2014/15 and 2015/16 to fund new scheme proposals commencing in 2013/14 for additional school places required over the medium term. Members will recall that as part of last year’s Capital Programme the Council approved the use of Department of Health Grant and 50% of the Local Transport Plan – Integrated Transport Block grant for 2014/15.

8.11 The impact of committing future capital resources to schemes commencing in 2013/14 (completing in 2015/16) is to significantly reduce the Corporate Capital Resources that will be available in 2014/15 and 2015/16 with the consequence that either the number and/or size of category 1 or category 2 new scheme starts in each of these years, will be significantly reduced.

Revenue Reserve for Capital & Revenue Contributions to Capital

8.12 The Revenue Reserve for Capital has been built up over a number of years from Revenue Contributions to finance capital schemes and is estimated to be £14.3m at the end of this financial year. Sums are transferred into this reserve in advance and then drawn from the reserve once the expenditure is incurred.

8.13 The balance on the Revenue Reserve for Capital and the in year (2012/13) Revenue Contributions to this reserve have been taken into account in arriving at the overall level of capital resources available.

Changes to the Existing Capital Programme

8.14 In arriving at the overall level of capital resources available, the current approved Capital Programme has been reviewed and amended, in accordance with the approved Capital Strategy, for under and overspending plus any adjustments for additions to or shortfalls in estimated funding. These adjustments are reflected in the proposed Capital Programme at Appendix 1. The more significant amendments to the existing Capital Programme are set out below:

Underspendings:

- Standards Fund Schemes in Schools
- Schools Primary Capital Programme
- Somerstown Projects
- John Pounds
- Affordable Housing & Regeneration
- Copnor Bridge
- Pedestrian Routes
- Access to Stations
- Cycling Schemes
- Lake Road Puffin Crossing
- Civic Offices Telephone Exchange
- Cruise Ship Facilities
- Play Pathfinder
- Southsea Library & Access Point

Overspendings / Funding Shortfalls:

- School Asset Management Plan
- IS Road Map
- R12 Upgrade
- Air Quality Monitoring
- City Centre Regeneration

In Year Additions:

- Berth 1 Pontoon Refurbishment
- Enterprise Centre Dilapidations
- ARTches Point Battery Kiosk
- Coastal Communities Bid (ARTches)
- Milton Tennis Courts' Resurfacing
- Port Master System
- IS Data Centre – Chillers
- HR Self Serve & I-Expenses
- Old London Road
- Adult Learning Supported Living

8.15 The funding required to finance the overall recommended Capital Programme attached at Appendix 1 plus the changes described in this Section and Sections 6 and 7 have been fully taken into account in arriving at the capital resources available.

Prudential Borrowing

8.16 Prudential Borrowing is what is termed "unsupported borrowing" and means that the Government does not provide any revenue support through Government Grant for the repayment of that debt (neither principal nor interest). The City Council therefore, must fund all of the repayments associated with this type of borrowing. There are strict rules governing the use of Prudential Borrowing around the concepts of Affordability, Sustainability and Prudence. Thus far, the City Council has only been able to utilise Prudential Borrowing for Invest to Save Schemes where there is a demonstrable case that the capital expenditure incurred will result in savings that at least cover either the cost of borrowing or, alternatively, where other savings can be made to cover those borrowing costs.

8.17 Prudential Borrowing has been taken into account in determining the overall capital resources available and is currently being used as a source of finance for the following schemes:

- School Strategy (Post BSF Strategy)
- Victory School All Weather Pitch
- Port Terminal Building
- Port Signage Electronic Upgrade
- Port Berth 2 Extension
- MMD Capital Advances
- Transformation Programme – Customer Management
- Southsea Seafront – Beach Huts
- 4 Sites Project
- New and Improved Models of Care
- Northern Quarter Road Upgrade
- Trafalgar Gate Link Road

Capital Receipts

8.18 In forecasting the level of Capital Resources available to the City Council over the medium term, the following core assumptions have been made:

- Capital receipts have only been assumed for the disposal of assets that have been approved by Members

- Capital receipts are only assumed where they are expected to be realised within a reasonable timeframe since there are inherent risks associated with changing circumstances over longer time periods

- Some of the more significant capital receipts being relied upon to fund the current capital programme include:

    - Sale of Council Houses
    - Westfield & Saxon Shore School's
    - Merefield House
    - Darby House
    - Greetham Street (including Drummond House)

- Revisions to reflect the current financial conditions in the property market

8.19 The Administration are planning to realise further capital receipts from site disposals and the "ring fencing" of the capital receipts that arise in order to fund the New & Improved Models of Care scheme included by the Administration within the 2011/12 to 2016/17 Capital Programme and approved by City Council on 14th February 2012. As a consequence, this scheme remains within the 2012/13 to 2017/18 Capital Programme but can only proceed once the Administration declare the necessary sites "Surplus to Requirements" and this will be contained within a future report to the Cabinet.

8.20 As part of the Capital Programme for 2012/13 onwards, the Administration plan to realise a further capital receipt from the sale of the Archive Store, consequently this site is proposed to be declared surplus to requirements.

Corporate (Non ring-fenced Capital Grants)

8.21 The Capital Programme also relies upon other non ring fenced Capital Grants

Revenue Contributions to Capital 2013/14 and Future Years

8.22 In balancing the priorities for both the Revenue Budget 2013/14 and the Capital Programme 2013/14 and beyond, the Administration consider that in order to realise their Capital Programme objectives, they will need to make a contribution from the Revenue Budget of £945,200.

Summary of Total Available Capital Resources

8.23 Taking all of the above factors into account, as well as making some contingency provision for contractual disputes and other potential costs, the Capital Resources available at this time are as follows:

CORPORATE CAPITAL RESOURCES AVAILABLE	**£000**
Corporate Capital Resources (including "Pooled Resources") **Add:** Funds Released from Uncommitted Schemes	12,873 Nil
Total Corporate Capital Resources Available	**12,873**

9. Priority Capital Schemes – 2013/14 & Beyond (Corporate Resources)

9.1 The Administration plan to invest £4.96m in order to ensure that there is sufficient pupil place capacity within schools in order to avoid severe disruptions to service delivery over the medium term. The Administration has deliberately sought to "stretch" the available Capital Resources in order to enable this.

9.2 The programme has also been designed to support schools in improving educational attainment by investing £1.8m into school buildings and targeting those resources at schools with the most critical building needs. Finally significant investment continues to be made into core services such as Private

Sector Housing, Transportation and Central Services, enabling them to fulfil their statutory obligations and to function effectively.

9.3 As described in Section 8, the Administration proposes to “stretch” the Capital Resources available for a second year by relying on future years’ capital grant allocations and future years’ Community Infrastructure Levy contributions. The price therefore of delivering these high impact schemes is to reduce the resources that would otherwise be available in future years. The Administration considers that this is the best way of utilising capital resources in accordance with the Capital Strategy.

9.4 At this time the Administration is recommending the allocation of £12.873m to the following capital schemes which it deems to be of particular importance to the delivery of its Capital Strategy.

Capital Scheme	**Capital Strategy Short / Medium Term Need & Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)**	**Corporate Resource Allocation £**	**Total Scheme Value £**
ICS Replacement - Reshaping Children's Social Care	Category 1 - Short / Medium Term Need & Priority – Contributes to multiple priorities by ensuring “back office” infrastructure is suitable for purpose.	750,000	750,000
School Condition Projects	Category 1 - Short / Medium Term Need & Priority – Raise Standards in English & Maths through maintenance and enhancement of the learning environment. Ensuring that buildings are in the right condition and are suitable for learning needs	1,800,000	1,800,000
Supply of School Places	Category 2 - Short / Medium Term Need & Priority – Raise Standards in English & Maths Ensuring adequate class room capacity in the medium term and are suitable for learning needs	4,960,000	4,960,000
Drayton Park - Refurbishment of Tennis Courts	Category 1 - Short / Medium Term Need & Priority – A Cleaner and Greener City by protecting and improving parks, open spaces and biodiversity	135,000	135,000

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)	Corporate Resource Allocation £	Total Scheme Value £
ARTches Project	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment.	100,000	1,750,000
Lighting from Square Tower to Round Tower	Category 1 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment.	50,000	50,000
Rock Gardens - Replacement of CCTV Cameras	Category 1 - Short / Medium Term Need & Priority – Regenerate the City by contributing to community cohesion and City identity.	20,000	20,000
New Library in Drayton	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities and encouraging investment	100,000	100,000
Southsea Seafront Investment (Exc. Pyramids Centre)	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment.	250,000	250,000
Re-location of Archive Store - Southsea Library 1st Floor	Category 1 - Short / Medium Term Need & Priority – Contributes to multiple priorities by ensuring “back office” infrastructure is suitable for purpose.	600,000	600,000
Kings Theatre Capital Grant	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment.	200,000	200,000
Horsea Island Country Park	Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment.	154,000	184,200

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)	Corporate Resource Allocation £	Total Scheme Value £
Support For Vulnerable People	Category 1 - Short / Medium Term Need & Priority - Improve the availability, affordability and quality of housing.	900,000	1,016,000
Tipner Land Remediation and Sea Defences	Category 2 – Long Term Need & Priority Regenerate the City by providing an attractive place for businesses to settle.	78,000	10,004,000
Cosham High Street	Category 2 – Long Term Need & Priority Regenerate the City by providing an attractive place for businesses to settle.	200,000	200,000
Berth Five Linkspan	Category 1 - Short / Medium Term Need & Priority – Regenerate the City by securing the existing trade through the Ferry Port and attracting new business	100,000	100,000
Demolition of Floating Dock Jetty	Category 1 - Short / Medium Term Need & Priority – Regenerate the City by securing the existing trade through the Ferry Port and attracting new business	500,000	2,500,000
Dunsbury Hill Farm - Access Road and Infrastructure Scheme	Category 2 – Long Term Need & Priority Regenerate the City by providing an attractive place for businesses to settle.	100,000	8,250,000
Landlords Maintenance	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	1,050,000	1,050,000

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)	Corporate Resource Allocation £	Total Scheme Value £
Landlords Maintenance - Capital Contingency	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	196,000	196,000
Replace Oldest Quay Tugs	Category 1 - Short / Medium Term Need & Priority – Regenerate the City by securing the existing trade through MMD and attracting new business	30,000	100,000
Local Transport Plan 3	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	600,000	935,000
Total Corporate Capital Resources Allocated		**12,873,000**	**35,150,200**

9.5 Of the twenty two schemes above recommended for approval, eleven are explicitly outlined within the Capital Strategy. Future additions to the Strategy will be made using this Capital Programme Review exercise as its annual re-fresh. The Landlords Maintenance Capital Contingency and Landlords Maintenance schemes, in particular complement the Council's priority to become more efficient, improve performance and value for money.

9.6 The proposed Capital Schemes recommended for approval are described in more detail in Appendix 2 and set out:

- Description of the Scheme and its key aims
- The total cost of the scheme including funding from other sources
- The net cost of the scheme to be funded from Corporate Capital Resources
- Any additional on-going revenue costs/savings associated with the scheme

10. New Capital Schemes To Be Funded From Prudential Borrowing

10.1 No new capital schemes have been added which require Prudential Borrowing.

11. New Capital Schemes To Be Funded From The MTRS Reserve

Automatic Line Handling Scheme

11.1 It is proposed that an Automatic Line Handling system at a cost of £500,000 be brought into operation at the Ferry Port. This will provide for mooring machines on the berths by using an automatic line feed and winch system. This is an Invest to Save Scheme which will deliver manpower and external contractor savings of £118,000 per annum providing an overall payback of the investment within 5 years.

Replace Oldest Quay Tugs

11.2 Quay tugs are used to move trailers around the MMD site. 21 tugs are presently in use, some of which are in excess of 25 years old. Repairs are becoming increasingly expensive and spare parts difficult to obtain. It is proposed that 5 reconditioned replacements are purchased at an estimated total cost of £100,000. As a result, revenue savings of £16,900 per annum will arise. As this level of savings does not meet the 5 year payback criteria for the total cost to be met from the MTRS Reserve it is recommended that £70,000 be funded from the MTRS Reserve and that the balance be funded from available corporate resources.

Purchase of Haulage Trailers

11.3 MMD currently lease 9 haulage trailers at a cost of £33,000 per annum. It is proposed that MMD purchase 9 second hand haulage trailers at a cost of £63,000. This is an invest to save scheme with an overall payback of the investment within two years.

Voltage Reduction & Power Cleaning

11.4 The proposal involves the installation of 3 new transformers to reduce voltage from 238 volts to 220 volts in the main temperature controlled sheds on the MMD site at a cost of £130,000. As a result an 8% reduction in electricity consumption will arise. This is an invest to save scheme with an overall payback of the investment within four years.

Legal Case Management System

11.5 It is proposed that an online legal case management system is implemented within Legal Services at a cost of £96,000. The investment will enable an ongoing annual reduction in the cost of Legal Services of £30,000 per annum. This is an invest to save scheme with an overall payback of the investment in just over three years.

11.6 Funding totalling £417,800 from the MTRS Reserve is required to finance schemes already approved within the capital programme. The Administration propose that, as the above new schemes are spend to save schemes they are funded from the MTRS Reserve at a cost of £859,000 increasing the MTRS funding requirement to £1.277m.

12. Prudential Borrowing and Prudential Indicators

12.1 Prudential Borrowing is a potential source of capital finance under the Local Government Act 2003. This requires that Local Authorities comply with the Prudential Code for Capital Finance. The key objective of the Prudential Code is to ensure that the capital investment plans of local authorities are Affordable, Prudent and Sustainable. The Prudential Code sets out a clear governance procedure for those matters that the Authority must have regard to as follows:

- **Affordability** e.g. implications for Council Tax and Council housing rents
- **Prudence and Sustainability** e.g. implications for external borrowing
- **Value for money** e.g. options appraisal
- **Stewardship of assets** e.g. asset management planning
- **Service objectives** e.g. strategic planning for the authority
- **Practicality** e.g. achievability of the forward plan

12.2 Prudential borrowing requires that the capital investment of the Authority remains within sustainable limits and that the revenue consequences, including both debt financing and other revenue costs, are affordable over the long term. In considering the affordability of its Capital plans, the Authority must consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years as a minimum. The Authority is also required to consider known significant variations beyond this timeframe and pay due regard to risk and uncertainty.

12.3 Whilst the City Council is able to set a balanced budget in 2013/14, this is only by drawing on Revenue Balances of £313,000. Furthermore, current forecast revenue deficits amount to £6.6m in 2014/15, £15.8m in 2015/16 and £26.0m in 2016/17. **This means that until such time as the Council is able to balance its budget over the medium term, it is unable to demonstrate that it can afford any additional borrowing costs over that period and therefore cannot demonstrate compliance with the affordability test of the Prudential Code. Prudential Borrowing is available however, for Invest to Save Schemes.**

12.4 The Secretary of State has reserve powers to impose regulations on Local Authorities if it feels that an Authority is either not compliant with the code or if it is in the national economic interest. These reserve powers include:

- National Borrowing Limits – if there are national economic reasons

- Borrowing Limits for an individual Authority

- Limits set either nationally or locally for different kinds of borrowing

- Any headroom that a Local Authority has under National Borrowing Limits that may be transferred between Authorities

12.5 The Prudential Indicators of the Council are determined largely from its Capital Investment decisions and are explained and presented in Appendix 3. In summary, the Council's indicators illustrate that on the General Fund, its current Capital Programme is affordable. The ratio of financing costs to net revenue stream are estimated to be 12.4% in 2012/13, rising to 13.3% in 2013/14 and then falling to 11.9% over the three years to 2017/18. For the Housing Revenue Account, fixed borrowing costs range from 13.6% in 2012/13 falling to 9.4% by 2017/18. In 2011/12 the ratio was 4.4% with the increase to 13.6% in 2012/13 being entirely due to the Housing Revenue Account taking on debt following the abolition of the Housing Revenue Account (HRA) Subsidy system and the introduction of HRA Self Financing. The forecast HRA balance for the next 5 years remains in surplus indicating that this is a sustainable level of borrowing.

12.6 Represented in terms of the effect on a Band D taxpayer, the revenue effect (i.e. additional costs/savings against the revenue budget) of the recommended capital programme is expected to be a £2.79 reduction per annum per taxpayer in 2014/15 or a 0.2% reduction in the Council Tax.

12.7 The Council's underlying need to borrow to finance its current and future capital expenditure (i.e. its Capital Financing Requirement) is falling. The Council's Operational Boundary is currently £446.9m and is forecast to fall to £426.1m over the period to 2017/18.

12.8 The Council's Limit for External Debt, recommended at £468.7m for 2013/14, should be broadly equivalent to its underlying need to borrow (described above) but should allow for a little headroom in excess of it. This has been set accordingly. Furthermore, the Operational Boundary for external debt serves as a limit / early warning tool to highlight whether the External Limit is nearing a breach. This therefore, is set at the level to which external debt is more likely to be.

13. Conclusion

13.1 The Capital Programme and new capital schemes recommended as part of this report attempt to strike the right balance between meeting the short and medium term needs and priorities of the Council and the longer term aspirational vision for the City.

13.2 In particular, the programme is designed to support schools in their drive to improve educational attainment and to protect the vulnerable in society. The programme is clearly aligned with the approved Capital Strategy.

13.3 This programme sets out the future Capital Investment agenda for the Council. It looks beyond the coming year and uses a financial framework for allocating capital resources based on the concept of pooling non-ring fenced resources so that there is greater transparency and choice for new capital investment with greater opportunity for enhanced outcomes for residents.

14. Comments of the City Solicitor

14.1 The City Solicitor has confirmed that it is within the City Council's powers to approve the recommendations set out above.

15. Equality Impact Assessment

15.1 This Capital Programme earmarks sums for future capital schemes. Prior to the commencement of any capital scheme, a report and financial appraisal on that scheme will be approved either by the Portfolio Holder, the Cabinet or the City Council and at that time an Equalities Impact Assessment will be undertaken.

Chris Ward

Head of Finance and Section 151 Officer

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*
Capital 2013/14	Office of Corporate Finance Manager
Capital Strategy 2008 – 2018	Council's Web Site
Capital Investment Aspirations & Priorities 2011/12 and the Future	Council's Web Site

The recommendations set out above were approved/ approved as amended/ deferred/ rejected by the Cabinet on 11th February 2013

Signed: ---

The recommendations set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 12th February 2013

Signed: ---

APPENDIX 1

CAPITAL PROGRAMME & FINANCING

2012/13 – 2017/18