



Decision maker: Cabinet
City Council

Subject: Capital Programme 2015/16 to 2020/21

Date of decision: 8th February 2016 (Cabinet)
9th February 2016 (City Council)

Report by: Director of Finance and Information Service & Section 151

Wards affected: All

Key decision: Yes

Budget & policy framework decision: Yes

1. Executive Summary

- 1.1 In accordance with the Council's Capital Strategy and Medium Term Financial Strategy the Administration, through these proposals, have prioritised those schemes that meet the Council's statutory responsibilities and those that are most likely to drive cost reduction for the Council and economic growth for the City.
- 1.2 The Administration's new scheme proposals contained within this report will lead to additional capital investment totalling £173.2m.
- 1.3 The programme has been designed to support educational attainment by investing £7.25m into school buildings. This will provide sufficient school places for the rising population and also meet the most critical repairs across the school estate, targeting resources at schools with the most acute needs. In addition a further £1.1m is being invested in other council buildings to ensure that they remain fit for purpose.
- 1.4 Firm City Council contributions totalling £1.25m are proposed towards an £87m¹ bid for Sea Defence works across Old Portsmouth, Southsea and Eastney with a future commitment (subject to sufficient available capital resources) of a further £4.75m in future years.
- 1.5 Significant investment continues to be made into core City transport infrastructure amounting to £3.5m and includes proposals for smart traffic signalling technology to be deployed at critical junctions across the city to improve journey times.
- 1.6 Future plans are also proposed for a significant capital injection into the Portsmouth International Ferry Port to replace linkspans that will secure Port income streams.

¹ Assuming further contributions from the Council are made available in future periods of £4.75m

- 1.7 It is also proposed to increase the overall value of the Property Acquisition Fund to £110m with a further injection of £60m in order that it is of sufficient scale to be properly balanced across sectors, geography and investment size and continues to make meaningful contributions towards the Council's income aspirations as a mechanism to avoid service cuts.
- 1.8 Finally, there are a range of other proposals that seek to both reduce Council costs and increase the income generating capacity of the Council itself, so that the Council is well positioned to meet its future savings requirements of £24m for the period 2017/18 to 2019/20.
- 1.9 To deliver these necessary schemes, the Administration proposes to make a revenue contribution to Capital of £1.5m arising from the overall £5.7m underspend against the Revenue Budget in 2015/16. Additionally, the Administration proposes to "stretch" the Capital Resources available by relying on future years' capital grant allocations and future years' Community Infrastructure Levy contributions. The consequence of this 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 Council's Capital Strategy and Medium Term Financial Strategy.
- 1.10 The Council has the opportunity through its capital programme to invest in both the regeneration of the City and cost reduction schemes for the Council itself. Capital investment needs and aspirations however continue to significantly exceed the resources available. Importantly, there are likely to be opportunities throughout the year to lever in additional external capital funding for schemes that have strong potential to be catalytic for economic growth but only if, the Council itself can provide matched funding contributions. As a consequence, to maximise the Capital Investment opportunities for the City, the "Budget & Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20" report, elsewhere on this agenda, proposes that any further underspending, beyond the estimated £5.7m, that arise at year end will also be used to supplement the Capital Resources available for 2016/17 and future years.

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, the revenue budget and the Medium Term Financial Strategy
- Determine the corporate capital resources available including:
 - Adjustments for under and overspendings to the existing approved Capital Programme

- Update the capital resources available for all new and changed grants, capital receipts, revenue contributions and other contributions
- The identification of additional assets which the Administration wishes to declare surplus to requirements
- Seek approval of the overall Capital Programme and "new starts" (including the Housing Investment Capital Programme) for 2015/16 and future years in accordance with the Capital Strategy
- Describe and approve the Prudential Indicators arising from the revised Capital Programme 2015/16 to 2020/21
- Delegate authority to the S.151 Officer to alter the mix of capital funding to make best use of City Council resources

3. Recommendations

3.1 That the following be approved in respect of the Council's Capital Programme:

- 1) The Revised Capital Programme 2015/16 to 2020/21 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 S.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
- 3) That the S.151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and also for any match funding requirements that may be required of the City Council in order to secure additional external capital funding (e.g. bids for funding from Government or the Solent Local Enterprise Partnership)
- 4) The following schemes as described in Section 9 and Appendix 2 be reflected within the recommended Capital Programme 2015/16 to 2020/21 and be financed from the available corporate capital resources:

Recommended New Capital Schemes	Corporate Resources Required £	Total Scheme Value £
Children & Education		
School Conditions Project	725,000	750,000
Special Education Needs - Building Alterations	1,200,000	3,200,000
Secondary School Places Expansion 2016/17 - 2018/19 (Phase 1)	1,500,000	1,500,000
Secondary School Places Expansion 2019/20 - 20/21 (Phase 2)	1,800,000	1,800,000
Culture Leisure & Sport		
Round Tower Improvement Works	80,000	80,000
Environment & Community Safety		
Southsea Coastal Flood Defence	1,250,000	82,063,000
Health & Social Care		
Refurbishment of Hilsea Lodge Annexe	140,000	140,000
Reconfiguration of Corben Lodge	1,150,000	1,150,000
Housing		
New Green & Clean Rest Areas	67,000	67,000
PRED		
Public Realm Improvement By The Hard	300,000	300,000
Guildhall Investment (Match funding)	300,000	300,000
Resources		
Landlord's Maintenance	1,100,000	1,100,000
Utilities' Management	983,000	1,233,000
Traffic & Transportation		
LTP3	353,000	353,000
Traffic Signal Upgrade Packages	910,000	910,000
Eastern Road Waterbridge	1,060,000	1,800,000
Total Recommended Sum to be Approved	12,918,000	96,746,000

- 5) The following schemes as described in Section 10 and Appendix 2 be approved as Invest To Save Schemes and funded from Prudential Borrowing (subject to the approval of a detailed financial appraisal by the S.151 Officer) up to the limit shown:

	Prudential Borrowing Required £
Eastern Road New Build	1,723,000
Purchase of New Depot	2,200,000
Commercial Property Acquisition	60,000,000
Purchase of Linkspans Berths 3 and 4	8,700,000
Utilities' Management	250,000
Photovoltaic Cell Investment Fund	1,950,000
Total Recommended Sum to be Approved	74,823,000

- 6) As described in Section 10, early years borrowing costs relating to the above schemes totalling £73,900 in 2016/17 and £179,900 in 2017/18 be funded from the MTRS reserve
- 7) The following Schemes as described in Section 13 be included within the "Reserve List" of Capital Schemes to be considered once additional capital resources are identified

Future Priority Capital Schemes – Not in Priority Order
Secondary School Places 2018/19 to 2020/21
Special Educational Needs Re-modelling
School Condition (roofs, boilers, electrics, windows etc.)
Sea Defences
Enabling Transport Infrastructure match funding - City development
City Promotion & Inward Investment schemes
Landlords Repairs & Maintenance
Local Transport Plan - Road safety and traffic improvement schemes

- 8) The Prudential Indicators described in Section 14 and set out in Appendix 3 be approved.

3.2 That the following be noted in respect of the Council's Capital Programme:

- 1) That the capital resources proposed to be allocated include £1.5m of funding from Revenue as recommended in the "Budget and Council Tax 2016/17 & Medium Term Budget Forecast 2017/18 to 2019/20 "report contained elsewhere on this agenda. In the event that this funding is not approved, schemes with Corporate Capital Resources amounting to £1.5m will be required to be removed from the new schemes starting in 2016/17 detailed in Appendix 2
- 2) The passported Capital Allocations (Ring-fenced Grants) as set out in Section 7
- 3) As outlined in Section 12 and Appendix 2 the use of The Parking Reserve to fund the refurbishment of Isambard Brunel Car Park at a cost of £450,000
- 4) 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 14

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 (Replaced by "Plan on a Page")
- 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 2016/17 will be the seventh 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 of funding, to one that is based on pooling resources 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 The Administration have focussed a significant proportion of their available Capital Resources towards improving the condition of school buildings and increasing the number of pupil places within secondary schools to meet forecast increases in demand.
- 4.5 The next large physical regeneration project planned by the City Council over the next 5 - 10 years is the seafront development, which includes improvement of sea defences and key sites identified in the Seafront Master Plan. Consistent with this plan, the Council expects to be awarded £80.8m by The Environment Agency to complete improvements to the sea defences along Southsea Seafront. In anticipation of this grant award, the Administration has allocated £1.25m match funding in 2016/17.
- 4.6 Other regeneration schemes in the pipeline include housing and employment space developments at Port Solent, Tipner and Horsea under the City Deal Programme and the development of a Business Park at Dunsbury Hill Farm.
- 4.7 There remain significant future capital obligations and aspirations. These include schemes such as the following where funding has yet to be identified to meet them in full but which will likely require funding in 2017/18:

Capital Scheme - Significant Obligation / Aspiration	Unfunded Requirement £m
Secondary School Places 2018/19 to 2020/21	6.0 - 10.0
Special Educational Needs Re-modelling	1.3 - 3.3
School Condition (roofs, boilers, electrics, windows etc.)	2.5 - 4.0
Sea Defences Contribution to £87m Scheme	4.75
Enabling Transport Infrastructure match funding - City development	5.0 - 10.0
Landlords Repairs & Maintenance	1.0 - 2.0
Local Transport Plan - Road safety and traffic improvement schemes	1.5
Total Funding Requirement	22.1 - 35.6

- 4.8 The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital grant funding, capital receipts and CIL contributions that the Council receives (circa £10m per annum), plus any Government funding that may be available for school places of circa £6m to £8m. With potentially available capital funding of £18m versus an aspiration of between £22m to £36m of Capital Investment, there is a significant shortfall to be met.
- 4.9 Given that some of the Capital Investment is likely to have a transformational effect on the City's growth potential, it is recommended that any further underspendings for 2015/16 arising at the year-end (outside of those made by Portfolios) be transferred to Capital Resources in order to provide funding for purposes such as Secondary School Places, Sea Defences and the enabling transport infrastructure necessary for the City's development and growth.

5. Considerations in Formulating the Revised & Future Capital Programme

5.1 In considering the revised Capital Programme for 2015/16 and the future Capital Programme for 2016/17 to 2020/21, the following factors have been taken into account:

- The outline Medium Term Financial Strategy with its bias towards driving regeneration
- The Council's Capital Strategy, which informs the capital investment needs, priorities and aspirations of the Council
- 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/savings 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.

5.3 In determining the capital resources available, a small amount has been retained as a contingency to: mitigate the risk of capital receipts; Community Infrastructure Levy and Government Grants being lower than expected; to meet unavoidable increases in costs to approved schemes; as a source of finance to attract match funding from external capital grants that may become available, and as a funding source for small scale capital schemes that arise after the capital programme has been approved.

6. Revised Capital Programme – 2015/16 to 2020/21

6.1 Since the revised Capital Programme 2014/15 to 2019/20 was approved in February 2015, 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 2015 (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 2015/16 and beyond is attached at Appendix 1 and is recommended for approval.

7. **Passported Capital Allocations (Grants)**

7.1 Set out below is the current position on all new ring-fenced Grant Allocations for 2016/17. The allocation is passported directly to the relevant Portfolio/Board so that they can be applied in accordance with the conditions for their use.

Grant	Grant Description	Allocation
Children's & Education Services:		
Devolved Formula (indicative allocation)	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.	345,600
Health & Wellbeing Board:		
Disabled Facilities Grant (indicative allocation)	To be allocated in accordance with the arrangements for the distribution of the Better Care Fund	1,100,000
Total		1,145,600

8. **Forecast of Corporate Capital Resources (Non Passported) 2016/17 & 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 grants from Government, 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 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

Contributions to the Corporate Pool including the “Single Capital Pot” allocations

- 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 take the form of a direct Capital Grant.
- 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 Corporately Pooled such as:
- Capital Receipts from the Sale of Council Houses
 - Capital Receipts from the Sale of other HRA Assets
 - 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	Full Year Allocation	Allocated in Previous Years	Net
	£'000s	£'000s	£'000s
Culture, Leisure & Sport:			
S106 (Open Spaces)	730	(730)	0
Education:			
S106 (Education)	1,122	(1,122)	0
LA Basic Need	2016/17	6,418	(6,418)
	2017/18	2,508	2,508
DfE Capital Maintenance	2015/16	1,804	(1,172)
	2016/17	1,443	1,443
Housing:			
S106 (Housing)	838	(562)	276
Housing Capital Receipts	1,687	(1,143)	544
Traffic & Transportation:			
S106 (Sustainable Transport)	248	(245)	3
LTP IT Block	2015/16	1,851	1,851
Community Infrastructure Levy			
	9,890	(6,876)	3,014
Total Contributions to Corporate Pool	28,539	(18,268)	10,271

8.7 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 Ensign under the Highways PFI contract. This amounts to £1.311m in 2016/17
- that the Administration has relied on all of the LA Basic Need Grant for the years 2016/17 and 2017/18 and City Wide Neighbourhood CIL totalling £352,000 to fund scheme proposals scheduled to commence in 2016/17 to 2018/19 for additional school places required over the medium term
- Detailed feasibility and design of schemes aimed at increasing the number of school places commencing in 2019/20 are currently being prepared. Based on the limited work undertaken to date, the combined cost of these schemes is expected to be circa £6m - £10m. Bearing in mind the magnitude of the expected cost there is a significant risk that future LA Basic Need grant allocations from Government will not be sufficient to fund the full cost of the school places expansion. The Administration has therefore

considered it prudent to allocate £1.8m towards the cost of these schemes now from currently available pooled resources

- 8.8 The impact of committing future capital resources to schemes is to reduce the Corporate Capital Resources that will be available in 2017/18 with the consequence that the number and/or size of category 1 or category 2 new scheme starts in 2017/18 will also be reduced.

Revenue Reserve for Capital & Revenue Contributions to Capital

- 8.9 The Revenue Reserve for Capital has been built up over a number of years from Revenue Contributions to finance capital schemes and as at 31st March 2015 stood at £12.8m. Sums are transferred into this reserve in advance and then drawn from the reserve once the capital expenditure is incurred.
- 8.10 The balance on the Revenue Reserve for Capital and Revenue Contributions from/to this reserve have been taken into account in arriving at the overall level of capital resources available.

Changes to the Existing Capital Programme

- 8.11 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:

- Review of Business Software
- Southsea Shopping Centre
- Land Purchase - Limberline Road
- Merefield House Relocation
- Dame Judith Professional Centre
- Replacement Emergency Generator
- Tipner Motorway Junction Park & Ride
- Northern Road Bridge
- Removal of Hazards within the Home

Overspendings / Funding Shortfalls:

- The Hard Public Transport Interchange
- Hampshire Community Bank
- Commercial Letting of Brunel Wing
- Civic Office Ducting
- Major Repairs Dwellings (HRA)

In Year Additions:

- King Richard School Re-build
- Installation of Skate Park Equipment at Milton Park
- Cycle Track Fencing at Mountbatten Centre
- Re-provision of Children's Home
- Medina House Refurbishment
- Commercial Property Acquisition Fund
- Dunsbury Hill Farm - Utilities & Enabling
- Freehold Acquisition of Land Adjacent to MMD
- Traffic Management Centre Refurbishment
- Construction of New Council Dwellings
- Buckland Family Centre
- Emergency Repairs to Southsea Sea Defences

8.12 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

8.13 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.

Capital Receipts

8.14 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:
 - Derby House
 - Chaucer House
 - Great Western
 - Navigators

- Edinburgh House
 - Hilsea Lodge
 - Archive Store
 - Harbour School Fratton
 - Highland Road Public Toilets
 - Rodney Road
 - Land at King Richard School
- Revisions to reflect the current financial conditions in the property market

Corporate (Non ring-fenced Capital Grants)

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

Summary of Total Available Capital Resources

8.16 Taking all of the above factors into account, as well as making some contingency provision for contractual disputes, likely match funding contributions for funding bids 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")	12,918
Add: Funds Released from Uncommitted Schemes	Nil
Total Corporate Capital Resources Available	12,918

9. Priority Capital Schemes – 2016/17 & Beyond (Corporate Resources)

9.1 The programme has been specifically designed to support educational attainment by investing £7.25m into school buildings. This will provide sufficient school places for the rising population and also meet the most critical repairs across the school estate, targeting those resources towards schools with the most acute needs for new places and repair works.

9.2 The Administration also plan to support the economic growth of the City by improving the attractiveness of the area around The Hard and commencing the detailed design of sea defences at Southsea in order to protect the City's seafront assets. Significant investment also continues to be made into other core services such as Transportation, including proposals for smart traffic signalling technology to be deployed at critical junctions across the city to improve journey times and to enhance the City's attractiveness to businesses and residents alike.

9.3 As described in Section 8, the Administration have "stretched" the Capital Resources available by relying on future years' capital grant allocations and future years' Community Infrastructure Levy contributions. The consequence, 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 £12.918m 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 £
School Conditions Project	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	725,000	750,000
Special Education Needs - Building Alterations	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	1,200,000	3,200,000
Secondary School Places Expansion 2016/17 - 2018/19 (Phase 1)	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	1,500,000	1,500,000
Secondary School Places Expansion 2019/20 - 20/21 (Phase 2)	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
Round Tower Improvement Works	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	80,000	80,000
Southsea Coastal Flood Defence	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	1,250,000	82,063,000
Refurbishment of Hilsea Lodge Annexe	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	140,000	140,000
Reconfiguration of Corben Lodge	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	1,150,000	1,150,000
New Green & Clean Rest Areas	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	67,000	67,000
Public Realm Improvement By The Hard	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	300,000	300,000
Guildhall Investment (Match funding)	Category 2 - Short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	300,000	300,000
Landlord's 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	1,100,000	1,100,000
Utilities' Management	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by improved efficiency	983,000	1,233,000
LTP3	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	353,000	353,000
Traffic Signal Upgrade Packages	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	910,000	910,000
Eastern Road Waterbridge	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	1,060,000	1,800,000
Total Corporate Capital Resources Allocated		12,918,000	96,746,000

9.5 Of the 16 schemes above recommended for approval, 13 are explicitly outlined within the Capital Strategy. Future additions to the Strategy will be made using this Capital Programme Review exercise at its annual re-fresh.

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 To achieve further revenue savings the Administration plan to invest in a centralised depot, the refurbishment and reconfiguration of existing Adult Social Care facilities and the provision of a brand new social care facility at Eastern Road.

10.2 To secure existing income streams and create additional income, the Administration plan to invest in Port infrastructure and increase the overall value of the Property Acquisition Fund. The Fund is proposed to be increased to £110m with an injection of £60m so that it is of sufficient scale to be properly balanced across sectors, geography and investment size.

10.3 To significantly reduce the Council's Carbon Footprint and reduce energy costs, major investment in photovoltaic technology is also planned alongside further investment in other energy management schemes.

10.4 These schemes meet the Prudential Borrowing Criteria outlined at Paragraph 8.13 and it is recommended that prudential borrowing up to the limit shown for each scheme below (and set out in more detail in Appendix 2) is approved:

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority (Corporate Plan) or Long Term Aspiration (Portsmouth Vision)	Prudential Borrowing Required £
Eastern Road New Build	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	1,723,000
Purchase of New Depot	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	2,200,000
Commercial Property Acquisition	Category 2 - Long Term Need & Priority	60,000,000
Purchase of Linkspans Berths 3 and 4	Category 1 - Short / Medium Term Need & Priority – Regenerate the City by securing the existing trade through the Ferry Port and attracting new business	8,700,000
Utilities' Management	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by improved efficiency	250,000
Photovoltaic Cell Investment Fund	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by improved efficiency	1,950,000
Total Capital Schemes To Be Funded From Prudential Borrowing		74,823,000

- 10.5 The following schemes whilst meeting the Prudential Borrowing criteria in the longer term do not generate sufficient revenue savings in the early years to meet the borrowing costs associated with them. It is therefore recommended that the borrowing costs associated with each of the schemes identified below are funded from the MTRS Reserve for the first two years.

Capital Scheme	2016/17	2017/18	Total
Eastern Road New Build	3,900	31,000	34,900
Purchase of New Depot	45,000	98,900	143,900
Utilities' Management	25,000	50,000	75,000
Total	73,900	179,900	253,800

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

- 11.1 With the exception of the schemes outlined above, no new capital schemes have been added which require funding from the MTRS Reserve.

12. New Capital Schemes To Be Funded From The Parking Reserve

- 12.1 City Council note the use of the Parking Reserve to fund the following scheme

Isambard Brunel Car Park Upgrade

It is proposed that a programme to refurbish the car park and upgrade drainage is undertaken at a cost of £450,000 as set out in more detail in Appendix 2.

13. Future Priority Capital Schemes

- 13.1 In addition to the Capital Investment proposals described above, the Administration is keen to plan a path ahead in accordance with the Capital Strategy and set out their future proposals for Capital Investment once further Capital Resources become available. The Administration's proposals are set out below.

Future Priority Capital Schemes – Not in Priority Order
Secondary School Places 2018/19 to 2020/21
Special Educational Needs Re-modelling
School Condition (roofs, boilers, electrics, windows etc.)
Sea Defences
Enabling Transport Infrastructure match funding - City development
City Promotion & Inward Investment schemes
Landlords Repairs & Maintenance
Local Transport Plan - Road safety and traffic improvement schemes

14. Prudential Borrowing and Prudential Indicators

- 14.1 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 of 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

14.2 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.

14.3 Whilst the City Council is able to set a balanced budget in 2016/17 current forecast revenue deficits amount to £9.2m in 2017/18, £15.7m in 2018/19 and £23.9m in 2019/20. 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.

14.4 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

14.5 The Prudential Indicators of the Council are determined largely from its Capital Investment decisions and are presented in Appendix 3. In summary, the Council's indicators illustrate that its current Capital Programme is affordable. The ratio of financing costs to net revenue stream for the General Fund are estimated to be in 2015/16 11.7% rising to 16.7% by 2020/21. For the Housing Revenue Account, fixed borrowing costs range from 13.2% in 2015/16 falling to 13.1% by 2020/21. The forecast HRA balance for the next 5 years remains in surplus indicating that this is a sustainable level of borrowing.

- 14.6 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 equivalent to a reduction of £46.75 per annum per taxpayer in 2017/18 or equivalent to a 3.8% decrease in the Council Tax.
- 14.7 The Council's underlying need to borrow to finance its current and future capital expenditure (i.e. its Capital Financing Requirement) is increasing. The Council's 2015/16 revised Operational Boundary is £477.3m and is forecast to increase to 548.8m over the period to 2020/21
- 14.8 The Council's Limit for External Debt, recommended for 2016/17, 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.

15. Conclusion

- 15.1 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.
- 15.2 In particular, the proposals seek to meet the Council's statutory obligations to provide sufficient school places and to support schools in their pursuit of improved educational attainment. As a whole, the Capital Programme is designed to drive economic growth, support schools in their pursuit of improved educational attainment, generate savings and income for the Council in order to protect services from cuts and continue to protect the vulnerable in society. The programme is clearly aligned with the Medium Term Financial Strategy and the approved Capital Strategy.
- 15.3 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.

16. Equality Impact Assessment

- 16.1 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.

17. City Solicitor's Comments

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

18. S.151 Officer's Comments

18.1 All of the financial information is reflected in the body of the report and the Appendices.

Chris Ward

Director of Finance and Information Service & 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 –

<i>Title of document</i>	<i>Location</i>
Capital 2016/17	Office of Deputy Head of Finance
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 City Council on 9th February 2016

Signed: -----

**CAPITAL
PROGRAMME
&
FINANCING**

2015/16 - 2020/21