

Agenda item

Decision maker:	Cabinet City Council
Subject:	Capital Programme 2017/18 to 2022/23
Date of decision:	12 th February 2018 (Cabinet) 13 th February 2018 (City Council)
Report by:	Director of Finance and Information Technology & Section 151 Officer
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 and productivity for the City.
- 1.2 The Administration's new scheme proposals contained within this report will lead to additional capital investment totalling £40.7m.
- 1.3 The programme has been designed to support educational attainment by investing £15.0m into school buildings. This will provide sufficient secondary school places for the rising population, additional places for children with special education needs, which will reduce the need for expensive out of city placements, and also meet the most critical repairs across the school estate, targeting resources at schools with the most acute needs. In addition, a further £3.4m is being invested in council buildings to ensure that they remain fit for purpose and new public toilet facilities across the City.
- 1.4 To deliver these necessary school places, the Administration proposes to “stretch” the Capital Resources available by relying on future years’ capital grant allocations made by the Department for Education for LA Basic Need. 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.
- 1.5 Significant investment continues to be made into core City transport infrastructure amounting to £4.5m. Substantial measures to improve congestion and traffic flow

through the City's three main arteries are proposed. Continued investment in the Local Transport Plan is also proposed to facilitate economic development by ensuring transport networks are reliable and efficient; improve road and transport safety; manage the adverse impact of transport on the environment and promote healthier travel. Complimentary proposals to introduce an "intelligent transport system" exploiting up to date technology are also planned by the Administration.

- 1.6 An investment of £2.4m in new technology and digital services is planned to enable the replacement of Microsoft Windows 7¹ with Microsoft Windows 10 and to replace the Council's stock of ageing hardware (i.e. computers and laptops) ensuring that it is secure and up to date (i.e. within 3 years old). The investment will also enable further transformation of the council's customer contact arrangements. These technological investments will increase capability and ensure resilience whilst reducing annual running costs.
- 1.7 Finally, a range of environmental proposals totalling £4.4m are planned that seek to enhance the attractiveness of the City; improve the environment and reduce the impact that council services have upon it (including the roll out of wheeled bins to suitable properties; match funding towards the costs of works to restore, improve and celebrate the heritage of Victoria Park, and improvements to the City Centre public realm).
- 1.8 In addition to the new 2018/19 capital schemes outlined above, the Revised Capital Programme 2017/18 to 2022/23 attached as Appendix 1 includes a further £3.5m City Council contribution to the existing scheme of Sea Defence works which will protect 8,000 properties across Old Portsmouth, Southsea and Eastney from flooding (contributions totalling £2.5m were made in 2016/17 and 2017/18). This further amount increases the total City Council contribution to £6m.
- 1.9 In order to unlock the economic potential of the City, the Administration proposes to increase firm contributions by the City Council towards a circa £70m project for an upgraded City Centre access road by £7.5m to £22.5m. This City Council contribution has also been included in Appendix 1. This scheme will fundamentally re-design the primary route into the City, optimise available development land and improve journey times to accommodate future growth, enabling residents, tourists and businesses to access the City with ease and facilitating 2,600 additional homes and 9,700 permanent jobs.
- 1.10 The Council has the opportunity through its capital programme and borrowing powers 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 2018/19 & Medium Term Budget Forecast 2019/20 to 2021/22" report, elsewhere on this agenda, proposes that any further underspending, which arises at year end, will also be used to supplement the Capital Resources available for 2018/19 and future years.

¹ Windows 2007 will cease to be supported after January 2020

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 any 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 2017/18 and future years in accordance with the Capital Strategy
- Describe and approve the Prudential Indicators arising from the revised Capital Programme 2017/18 to 2022/23
- 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 2017/18 to 2022/23 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 2017/18 to 2022/23 and be financed from the available corporate capital resources:

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
Education			
	Schools' Conditions Project 2018/19	1,000,000	1,100,000
	Sufficiency of Secondary School Places	10,237,800	10,237,800
	Sufficiency of Special School Places - Redwood Park Academy	2,053,700	3,053,700
	Sufficiency of Special School Places - The Willows Centre	400,000	400,000
	Milton Childcare Sufficiency	250,000	250,000
	Forest School at Foxes Forest - Community Accessible Education Centre	125,000	125,000
Culture, Leisure and Sport			
	Farlington Pavillion Refurbishment	70,000	140,000
	Lumps Fort Sun Huts Maintenance	50,000	50,000
	Milton Park Barn Thatched Roof	130,000	130,000
	Victoria Park Heritage Lottery Funding Bid	250,000	2,500,000
	Disabled Beach Buggies & Access Mats	20,000	20,000
	Allotment Security Grants	35,000	35,000
	Outdoor Fitness Equipment	80,000	80,000
Environment and Community Safety			
	Public Toilets New Provision, across the City	125,000	180,000
	Wheeled Bins for Refuse	1,120,000	1,120,000
Health and Social Care			
	Shearwater House - Backup Power Supply	50,000	50,000
Housing			
	307 Twyford Avenue - Refurbishment of Supported Housing Accommodation for Adult Social Care clients	190,000	190,000
	4 Target Road - Refurbishment of Supported Housing Accommodation for Adult Social Care clients	100,000	100,000
	69 Goldsmith Avenue - Refurbishment of Supported Housing Accommodation for Adult Social Care clients	160,000	160,000
Planning, Regeneration and Economic Development			
	City Centre Public Realm 2018/19	500,000	500,000
Resources			
	Landlord's Maintenance	2,395,000	2,395,000
	Channel Shift - Phase 2	582,500	582,500
	Windows 10 Upgrade & Hardware Refresh	1,500,000	1,800,000
Traffic and Transportation			
	Cathodic Protection - Hard Interchange	1,200,000	1,200,000

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
	Western Corridor - South	120,000	120,000
	Central Corridor	250,000	250,000
	Eastern Corridor Road Link - Phase 2	500,000	500,000
	LTP 4	1,500,000	1,500,000
	Smart Cities - Intelligent Transport System	500,000	803,000
	Pedestrian Crossing - Henderson Road	80,000	80,000
Total Recommended Sum To Be Approved		25,574,000	29,652,000

- 5) The following Schemes as described in Section 14 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
School Condition (roofs, boilers, electrics, windows etc.)
Camber Quay Berth 4 Replacement
Enabling Transport Infrastructure match funding - City Centre development
Sea Defences
Landlords Repairs & Maintenance
Local Transport Plan - Road safety and traffic improvement schemes
Digital Strategy (Including move to cloud based Information Technology systems)

- 6) The Prudential Indicators described in Section 15 and set out in Appendix 3 be approved.

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

- 1) The passported Capital Allocations (Ring-fenced Grants) as set out in Section 7
- 2) That Cabinet Members, in consultation with the Section 151 Officer, have authority to vary Capital Schemes and their associated funding within their Portfolio in order to manage any potential overspending or funding shortfall or to respond to emerging priorities
- 3) As outlined in Section 9 and Appendix 2 that the Director of Property & Housing Services will work with other Directors to further prioritise the schedule of identified Landlord's Maintenance works to ensure that those with the highest priority are undertaken up to the value of the £2.4m allocated
- 4) The use of Drayton & Farlington Neighbourhood CIL to fund £70,000 of a £140,000 scheme to undertake a refurbishment of Farlington Pavilion, as outlined in Section 12 and Appendix 2
- 5) As outlined in Section 13 and Appendix 2 the release of £55,000 towards a £180,000 scheme from the Environment & Community Safety Portfolio Reserve to provide new public toilets across the City

- 6) 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 15

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 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 long term Capital Strategy.

- 4.4 As in previous years 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 and special schools to meet forecast increases in demand.
- 4.5 The next large physical regeneration projects planned by the City Council over the next 5 - 10 years are the seafront development and improvements to transport infrastructure to enable city development and growth. The seafront development includes improvement of sea defences and key sites identified in the Seafront Master Plan. Consistent with this plan, the Council expects to be awarded £77m by The Environment Agency to complete improvements to the sea defences along Southsea Seafront leading to the protection of 8,000 properties from flooding. In anticipation of this grant award, the Administration allocated £1.25m match funding in both 2016/17 and 2017/18 and plans to allocate a further £3.5m match funding in 2018/19. To unlock the economic potential of the City, the Administration proposes to increase firm City Council contributions by £7.5m towards a circa £70m project for an upgraded City Centre access road. This scheme will fundamentally re-design the primary route into the City, optimise available development land and improve journey times to accommodate future growth, enabling residents, tourists and businesses to access the City with ease and facilitating 2,600 additional homes and 9,700 permanent jobs. This will increase the contribution made available by the City Council to £22.5m in total.
- 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 the short or medium term:

Capital Scheme - Significant Obligation / Aspiration	Unfunded Requirement £m
School Condition (roofs, boilers, electrics, windows etc.)	2.0 - 4.0
Camber Quay Berth 4 Replacement	1.7 - 2.0
Enabling Transport Infrastructure match funding - City Centre development (next 5-10 years)	7.5
Sea Defences	6.0
Landlords Repairs & Maintenance	2.5 - 4.0
Local Transport Plan - Road safety and traffic improvement schemes	1.5 - 2.0
Digital Strategy (Including move to cloud based Information Technology systems)	4.0 - 5.5
Total Funding Requirement	25.2 - 31.0

- 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 £7m per annum) plus any Government funding which may be available for school places. With potentially available capital funding of £7m versus core obligations and aspirations of between £25.2m to £31.0m of Capital Investment, there is a hugely significant shortfall to be met.
- 4.9 Given that some of this Capital investment is likely to have a transformational effect on the City's growth, there is a recommendation elsewhere on this agenda, to transfer any further underspending in 2017/18 arising at the year-end (outside of those made by Portfolios) to Capital Resources in order to provide funding for essential Capital Investment in core obligations 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 2017/18 and the future Capital Programme for 2018/19 to 2022/23, the following factors have been taken into account:
- The Medium Term Financial Strategy with its bias towards entrepreneurial activities and driving regeneration
 - The Council's Capital Strategy, which informs the capital investment needs, priorities and aspirations of the Council
 - Any over or underspending 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, an 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 – 2017/18 to 2022/23

- 6.1 Since the revised Capital Programme 2016/17 to 2021/22 was approved in February 2017, 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 2017 (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 2017/18 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 2017/18. 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	Devolved Formula Capital Grant (DFCG) is a grant that allocates capital funding to schools. The grant is used to fund capital improvements/maintenance, remodelling and/or new build. (announcement of 2018/19 is awaited)	324,200
Health & Wellbeing Board:		
Disabled Facilities Grant	To be allocated in accordance with the arrangements for the distribution of the Better Care Fund (announcement of 2018/19 is awaited)	1,542,900
Total		1,867,100

8. Forecast of Corporate Capital Resources (Non Passported) 2017/18 & 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 Grants.
- 8.3 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.
- 8.4 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

8.5 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 Grant Allocation £'000s	Grant Allocated in Previous Years £'000s	Available Resources To Be Pooled £'000s
Education			
LA Basic Need			
2018/19	0	0	0
2019/20	2,927	0	2,927
2020/21	7,274	0	7,274
DfE Capital Maintenance			
2016/17	1,664	(1,443)	221
2017/18	1,520	(1,332)	188
2018/19	1,216	0	1,216
Housing			
Housing Capital Receipts			430
Traffic & Transport			
LTP IT Block			
2017/18	1,851	(1,834)	17
2018/19	1,851		1,851
CIL			
CIL Infrastructure			1,684
City Wide CIL			437
Total Contributions to Corporate Pool			16,245

8.6 It should be noted that:

- the maintenance element of the Local Transport Plan (LTP) and the allocation from the Pothole Action Fund have not been pooled and are earmarked to fund part of the Unitary Charge paid to Ensign under the Highways PFI contract. These amount to £1.151m and £0.077m respectively in 2018/19.
- that the Administration has relied on all of the LA Basic Need Grant for the years 2019/20 and 2020/21 to fund scheme proposals scheduled to commence in 2018/19 (completing in 2021/22) for additional school places required over the medium term.

Revenue Reserve for Capital & Revenue Contributions to Capital

8.7 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 2017 stood at £35.1m. Sums are transferred into this reserve in advance and then drawn from the reserve once the capital expenditure is incurred.

- 8.8 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

- 8.9 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:

Overspendings / Funding Shortfalls:

- Acquisition of 26 Albert Road

In Year Additions:

- Fountain Refurbishment - Southsea Castle
- Civil Enforcement Officers Handheld Devices
- Parking Enforcement Cameras
- Contactless Parking Metres
- Mountbatten Centre Floodlights
- Hilsea Lines BMX Pump Track
- Oakdene, St James Hospital Purchase & Remodelling
- Kingston Recreation Ground Play Improvements
- Water Safety Equipment
- Beacon View Primary School Kitchen Block
- Acquisition of Joint Venture Energy Company
- Guildhall Square Electrical Upgrade
- Kingston Lodge North Renovation
- Upgrade of Parking Income Counting Equipment
- Road Safety Improvements
- Bicycle Hangars
- Spur Analytics
- Cooperative Intelligent Transport Systems
- Permanent One Way System Wickham Street
- Cycle Signs & Infrastructure

- 8.10 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

- 8.11 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

8.12 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:
 - Archive Store
 - Harbour School Fratton
 - Havant Street Car Park
- Revisions to reflect the current financial conditions in the property market

Corporate (Non ring-fenced Capital Grants)

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

Summary of Total Available Capital Resources

8.14 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	£'000s
Corporate Capital Resources (including "Pooled Resources")	25,574
<u>Add:</u> Funds Released from Uncommitted Schemes	Nil
Total Corporate Capital Resources Available	25,574

9. Priority Capital Schemes – 2018/19 & Beyond (Corporate Resources)

- 9.1 The programme has been specifically designed to support educational attainment by investing £15.0m into school buildings. This will provide sufficient secondary school places for the rising population; additional places for children with special education needs, which will reduce the need for expensive out of city placements, and also meet the most critical repairs across the school estate, targeting resources at schools with the most acute needs.
- 9.2 The Administration also plan to support the economic growth of the City by; improving the attractiveness of the public realm; progressing the detailed design of sea defences at Southsea in order to protect the City's seafront assets (consultation is expected to commence in spring 2018 with the business case for full government funding and an application for planning approval being submitted in the Autumn) and, a contribution towards a project for an upgraded City Centre access road that will unlock the economic potential of the City.
- 9.3 Significant investment also continues to be made into other core services such as transportation, including proposals for improvements to the Eastern, Central and Western Corridor Road Links along with investment in intelligent transport systems, which will integrate communication technologies with transport infrastructure and vehicles with consequent improvements in safety, network management, information provision and environmental management, leading to improved management of traffic and other road users whilst minimising the impact of incident and maintenance activities.
- 9.4 As described in Section 8, the Administration have “stretched” the Capital Resources available by relying on future years’ capital grant allocations. 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.
- 9.5 At this time, the Administration is recommending the allocation of £25.574m to the following new 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 or Long Term Aspiration (Portsmouth Vision)	Corporate Resources Required £	Total Scheme Value £
Schools' Conditions Project 2018/19	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	1,000,000	1,100,000
Sufficiency of Secondary School Places	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	10,237,800	10,237,800

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority or Long Term Aspiration (Portsmouth Vision)	Corporate Resources Required £	Total Scheme Value £
Sufficiency of Special School Places - Redwood Park Academy	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	2,053,700	3,053,700
Sufficiency of Special School Places - The Willows Centre	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	400,000	400,000
Milton Childcare Sufficiency	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	250,000	250,000
Forest School at Foxes Forest - Community Accessible Education Centre	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	125,000	125,000
Farlington Pavillion Refurbishment	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	70,000	140,000
Lumps Fort Sun Huts Maintenance	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	50,000	50,000
Milton Park Barn Thatched Roof	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	130,000	130,000
Victoria Park Heritage Lottery Funding Bid	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	250,000	2,500,000
Disabled Beach Buggies & Access Mats	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	20,000	20,000
Allotment Security Grants	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	35,000	35,000
Outdoor Fitness Equipment	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	80,000	80,000
Public Toilets New Provision, across the City	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	125,000	180,000
Wheeled Bins for Refuse	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by improved efficiency	1,120,000	1,120,000

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority or Long Term Aspiration (Portsmouth Vision)	Corporate Resources Required £	Total Scheme Value £
Shearwater House - Backup Power Supply	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	50,000	50,000
307 Twyford Avenue - Refurbishment of Supported Housing Accommodation for Adult Social Care clients	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	190,000	190,000
4 Target Road - Refurbishment of Supported Housing Accommodation for Adult Social Care clients	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	100,000	100,000
69 Goldsmith Avenue - Refurbishment of Supported Housing Accommodation for Adult Social Care clients	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	160,000	160,000
City Centre Public Realm 2018/19	Category 2 - Long Term Need & Priority - Regenerate the City by providing an attractive place for business to settle	500,000	500,000
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	2,395,000	2,395,000
Channel Shift - Phase 2	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by ensuring "back office" infrastructure is suitable for purpose and avoids severe disruption to Service delivery	582,500	582,500
Windows 10 Upgrade & Hardware Refresh	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by ensuring "back office" infrastructure is suitable for purpose and avoids severe disruption to Service delivery	1,500,000	1,800,000
Cathodic Protection - Hard Interchange	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	1,200,000	1,200,000
Western Corridor - South	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	120,000	120,000

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority or Long Term Aspiration (Portsmouth Vision)	Corporate Resources Required £	Total Scheme Value £
Central Corridor	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	250,000	250,000
Eastern Corridor Road Link - Phase 2	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	500,000	500,000
LTP 4	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	1,500,000	1,500,000
Smart Cities - Intelligent Transport System	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	500,000	803,000
Pedestrian Crossing - Henderson Road	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	80,000	80,000
Total Corporate Resources Allocated		25,574,000	29,652,000

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

9.7 Capital funding requirements for building maintenance works submitted by the Director of Property & Housing and other Directors totalled £4.9m. Having considered all other capital funding requirements, a firm capital allocation of £2.4m has been included within Appendix 2 in respect of 2018/19 Landlord's Maintenance works. As a consequence, the Director of Property & Housing will work with other Directors to further prioritise the schedule of identified works to ensure that those with the highest priority are undertaken up to the value of the £2.4m allocated.

10. New Capital Schemes To Be Funded From Prudential Borrowing

- 10.1 No new capital schemes have been added to the Capital Programme which require prudential borrowing.

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

- 11.1 No new capital schemes have been added to the Capital Programme which require funding from the MTRS Reserve.

12. New Capital Schemes to be Funded From Neighbourhood CIL

- 12.1 City Council note the use of Drayton & Farlington Neighbourhood CIL to fund £70,000 of a £140,000 scheme to undertake a refurbishment of Farlington Pavilion as set out in more detail in Appendix 2.

13. New Capital Schemes to be Funded From Portfolio Reserve

- 13.1 City Council note the use of the Environment & Community Safety Portfolio Reserve to fund £55,000 of a £180,000 scheme to provide new public toilets across the City.

14. Future Priority Capital Schemes

- 14.1 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
School Condition (roofs, boilers, electrics, windows etc.)
Camber Quay Berth 4 Replacement
Enabling Transport Infrastructure match funding - City Centre development
Sea Defences
Landlords Repairs & Maintenance
Local Transport Plan - Road safety and traffic improvement schemes
Digital Strategy (Including move to cloud based Information Technology systems)

15. Prudential Borrowing and Prudential Indicators

- 15.1 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

15.2 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.

15.3 Whilst the City Council is able to set a balanced budget in 2018/19 current forecast revenue deficits amount to £4.7m in 2019/20, £8.9m in 2020/21 and £11.9m in 2021/22. 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.

15.4 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

15.5 The Prudential Indicators of the Council are determined largely from its Capital Investment decisions. The 7 indicators are presented in Appendix 3 for approval. In summary, the Council's indicators illustrate that its current Capital Programme is affordable. Further details setting out what each indicator shown in Appendix 3 represents is set out below

Ratio of Financing Costs to Net Revenue Stream

This indicator shows the proportion of the net revenue stream (i.e. the Councils Revenue Budget) that is attributable to the cost of financing capital expenditure.

Capital Financing Requirement (CFR)

Represents the Council's underlying need to borrow to fund current and future capital expenditure. The CFR arises directly from the capital activities of the Council and the resources applied to fund that capital activity. The CFR represents the unfinanced element of capital expenditure and is the difference between the value of total fixed assets on the balance sheet and the Revaluation Reserve and Capital Adjustment Account.

The Council's underlying need to borrow to finance its current and future capital expenditure (i.e. its Capital Financing Requirement) is increasing, primarily as a result of planned commercial property investments but will ultimately reduce as provision is made to repay debt.

Housing Revenue Account (HRA) Limit on Indebtedness

Represents the limit on the level of borrowing that the Council can take on in respect of the HRA.

Authorised Limit for External Debt & Operational Boundary for External Debt

The Council's Limit for External Debt, recommended for 2018/19, 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 an 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.

Incremental Impact of Capital Investment Decisions on the Council Tax/Housing Rents

Demonstrates the impact new capital schemes starting in 2018/19 (included in Appendix 2) will have upon the level of the Council Tax/Housing Rents (i.e. Cost of any Prudential Borrowing and the net revenue cost/saving arising upon completion of schemes).

16. Conclusion

- 16.1 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.
- 16.2 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.

- 16.3 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.

17. Equality Impact Assessment

- 17.1 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.

18. City Solicitor's Comments

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

19. S.151 Officer's Comments

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

Chris Ward

Director of Finance and Information Technology & 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 2018/19	Office of Deputy Director 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 13th February 2018

Signed: -----

**CAPITAL
PROGRAMME
&
FINANCING**

2017/18 - 2022/23