



Portsmouth  
*CITY COUNCIL*

# **CAPITAL STRATEGY**

## **2019/20 - 2028/29**

**“Working Together: putting people at the heart”**

# **Part I Capital Expenditure and Aspirations**

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## 1. Definition, Purpose & Scope

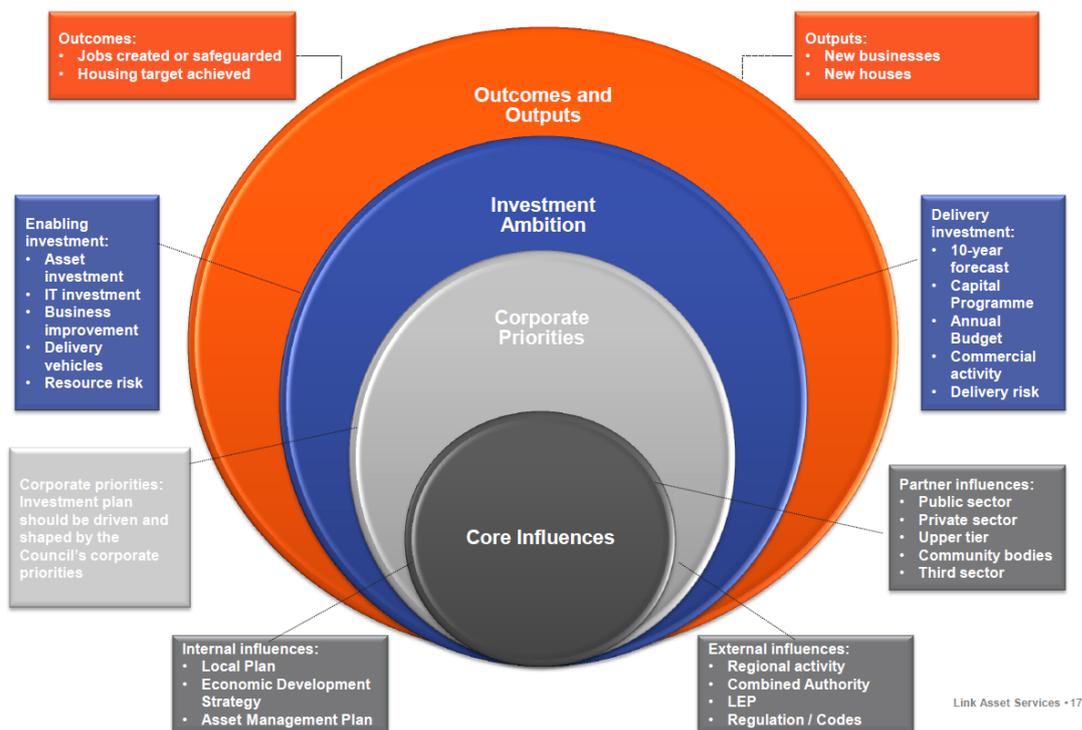
### Definition

- a. Capital expenditure is the expenditure that is incurred primarily on buying, constructing or improving physical assets, such as:
- Buildings (including schools, houses, libraries and museums)
  - Land for development, roads, playing fields; and
  - Vehicles, plant and machinery (including street lighting and road signs)

Capital expenditure also includes grants and advances made to the public or private sector for capital purposes, such as advances to Registered Social Landlords to provide adaptations to houses meet the needs of vulnerable people

- b. The Capital Strategy is a high level plan that sets out the Council's approach to Capital expenditure over the short, medium and long term.
- c. The Capital Strategy takes both a "bottom up" and "top down" approach to the identification of the Council's Capital expenditure requirements. It takes a 10 year time horizon and considers:
- What are the short term **needs** of the existing capital assets of the City Council, which of them will be required for future service delivery and what capital expenditure will be needed to sustain them both now and in the future ("Bottom Up" approach)
  - What are the Council's medium term **priorities** for service delivery and what capital expenditure will be needed to help deliver those priorities ("Top Down" and "Bottom Up" approach)
  - What are the Council's long term **aspirations** for the City of Portsmouth and what capital expenditure will be needed to deliver those aspirations ("Top Down" approach)

# Capital Strategy



## Purpose

- d. The purpose of the Capital Strategy is to set out a plan and a supporting financial framework to assist in the delivery of the Council's needs, priorities & aspirations. That plan describes what will be achieved, by when with key milestones and how it could be funded.
- e. The Capital Strategy is intended to be a robust vehicle with sufficient guiding principles to achieve the Council's stated vision and priorities but flexible enough to be able to respond to the emerging local priorities that will inevitably arise.
- f. The Capital Strategy is not intended to be static, it is a dynamic plan that will change and evolve continually over time. The Capital Strategy needs to be flexible to respond to emerging national and local priorities. In particular, the nature of the Central Government Capital Financing system is such that many national priorities for Capital expenditure will be cascaded and "drip fed" to Local Authorities over time and will be accompanied by the external funding to support them. These will be incorporated into the Council's Capital expenditure Plans as they arise. The Strategy will however, be robust and will include local priorities and aspirations that the Council aims to fund from the Council's own capital resources
- g. Following the December 2017 edition of the CIPFA Prudential Code for Capital Finance in Local Authorities' regulations guidance, there is also a new requirement for full Council to approve a combined annual Capital Strategy and Treasury Management Strategy. Being aligned with one another, they will generate and create value for the Council by optimising the Council's liquidity; having a framework in place to prioritise capital expenditure and safeguarding against risk of either project overspend or non-delivery and by limiting the uncertainty of its returns.

## Scope

- h. The City Council's Capital Strategy encompasses all areas of the Council's activities including some of the traditionally more autonomous service areas such as Housing Revenue Account and the Commercial Port.
- i. The body that approves the budget for PCC is the Full Council. The responsibility for decision-making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with the Full Council.
- j. New Capital Expenditure will be targeted towards income generation and economic growth whilst ensuring the Council's statutory obligations are also met, (e.g. school places). The priority of new capital expenditure will be assessed in accordance with the following capital expenditure criteria:
  - i. Essential to maintain operational effectiveness - including statutory responsibilities
  - ii. Continued drive towards the regeneration of the City - by increasing prosperity through employment and reducing the extent to which the population needs Council services
  - iii. Income Generation - reducing dependency on central government grants
  - iv. Invest to Save - increasing the efficiency and effectiveness of the Council's activity

## 2. Portsmouth Vision & Corporate Plan – “Strategic Fit

a. The Vision for Portsmouth is:

**“Make Portsmouth a place that is fairer for everyone: a city where the Council works together with thriving communities to put people at the heart of everything we do”.**

In order to deliver this vision, the City’s priorities are to:

- Make Portsmouth a city that works together, enabling communities to thrive and people to live healthy, safe and independent lives
- Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit
- Make our city cleaner, safer and greener
- Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures
- Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do

b. The Regeneration priority to "encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit" articulates the vision for the city to become a globally competitive economy supporting local economic growth, innovation and enterprise and enhancing the competitiveness of Portsmouth. The aim of the priority is to ensure local people are able to get those jobs and benefit from regeneration programme. By having a "Portsmouth first" approach to property investment, income generation will maintain services and enable more affordable good quality homes to be built.

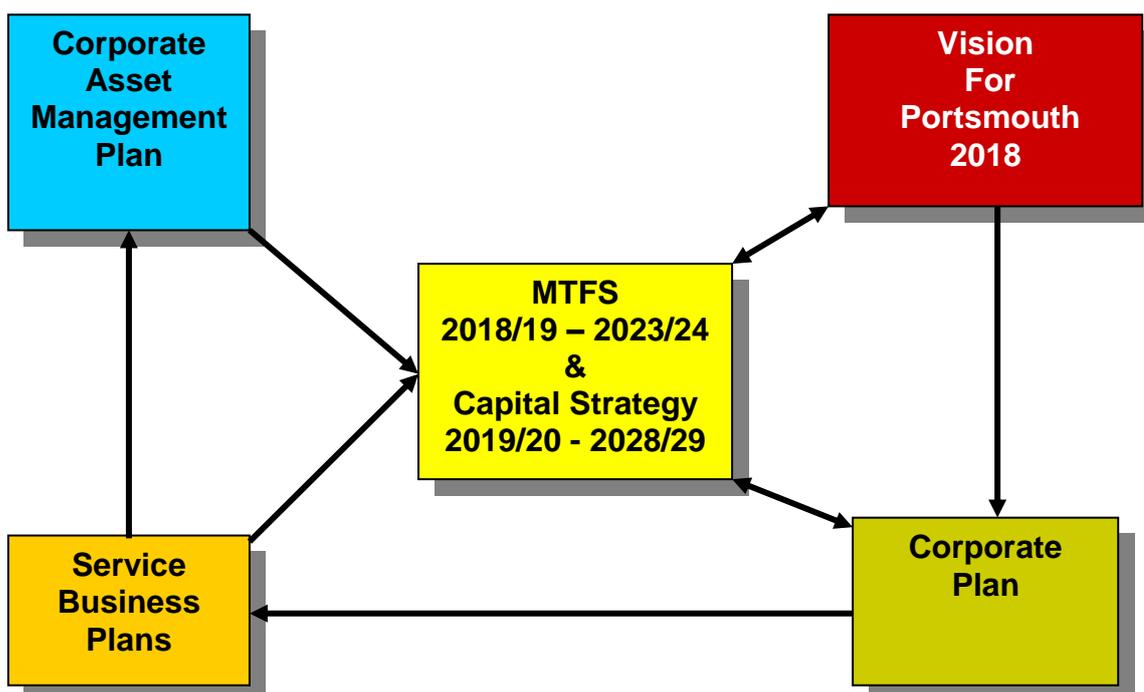
c. The Medium Term Financial Strategy (MTFS) and the Capital Strategy (CS) set out the Revenue Spending plans and the Capital expenditure plans respectively that deliver the longer term aspirational Vision for Portsmouth and the medium term Priorities for the City Council. Both of these strategies set out the financial frameworks that exist to support the achievement of the vision and priorities.

d. Whilst there is a technical distinction between Revenue and Capital, the focus of attention for the Council is not whether it is Capital or Revenue, but whether the desired outcome is achieved. In this respect, the strategy for capital expenditure is of equal importance to the strategy for revenue spending.

e. Whilst the MTFS and CS are designed to support the delivery of the day to day revenue and ongoing capital expenditure needs, priorities and aspirations of the Council, those needs, priorities and aspirations are also constrained by the revenue and capital resources available. These strategies therefore introduce criteria based processes to assist the Council in making informed spending decisions that will optimise the outcomes from the resources available.

f. The MTFS and CS are driven by the Vision for Portsmouth and the Corporate Plan both directly in terms of medium to longer term priorities and ambitions of the Council and via Service Business Plans and the Corporate Asset Management Plan in terms of the short and medium term needs and priorities of the Council. This is illustrated pictorially below:

## STRATEGIC FIT



- g. The Corporate Asset Management Plan and Service Business Plans are the more immediate “needs analysis” and “bottom up” drivers that feed the MTFS and CS. Service Business Plans set out all spending plans of the service in order to deliver priority outcomes. Service Business Plans also feed the Corporate Asset Management Plan (CAMP) which seeks to align the Council’s asset base with our corporate plans and objectives. The CAMP identifies current and future needs and priorities of services and seeks to provide a series of actions to ensure the Council has the right assets, in the right condition and in the right location
- h. A core feature of this Capital Strategy is assist in the delivery of the Vision and the Corporate Plan. There is a presumption that Capital expenditure will be targeted towards income generation and economic growth whilst ensuring the Council’s statutory obligations are also met. The emphasis is therefore on entrepreneurial and regeneration activities.

### 3. Key Capital Expenditure Principles

- a. In order to determine which current, or future assets, should be either maintained or invested in the following principles will be adopted when consideration is given to capital expenditure decisions:
- b.

#### **Principle 1 – Contribution to Council Plan / Priorities**

For the Council’s non-commercial activities, Capital expenditure will be made where there is a clear and demonstrable contribution to the priorities contained within the Corporate Plan or the aspirations contained within the Portsmouth Vision.

For the Council’s commercial activities (such as the Port and Investment Property Portfolio), Capital expenditure will be based on the commercial principles of achieving

a specified rate of return and payback through surpluses over a reasonable time period.

### **Principle 2 - Statutory Obligations**

There must be clarity about the details of immediate obligations and the extent to which the current statutory obligation is being met.

### **Principle 3 – Financial Appraisal**

The City Council will only embark on new capital expenditure where that capital expenditure is fully funded and the source of funding in terms of both timing and value can be relied upon with a high degree of confidence. The timing and accessibility of funds to PCC must be considered.

Prior to any Capital expenditure decision being made, the whole life cost of the proposal will be estimated and the Council will satisfy itself that those costs can be accommodated with the council's overall budget. Capital Expenditure must also take into consideration the impact on both existing revenue and capital budgets and future forecasts. This will include both the maintenance and any lifecycle replacement of components required over the estimated useful life of the asset.

### **Principle 5 – Option Appraisal**

Any new capital expenditure decision is to follow a full and proper options appraisal that considers the following for each reasonable alternative:

- Suitability – the extent to which each option makes a contribution to the needs, priorities and aspirations of the Council as defined within the CAMP, Corporate Plan and Vision for Portsmouth
- Feasibility – the capital cost and whole lifecycle cost plus the practical ease of implementing the scheme
- Acceptability – the extent to which the scheme is acceptable to Members of the City Council and the residents of Portsmouth

### **Principle 6 - Risk**

The Capital expenditure should not place the Council in a position where the risks associated with the Capital expenditure exceed the benefits of undertaking that investment. Neither, should the Council enter into any Capital expenditure where the risks associated with that investment cannot be managed effectively. Such risks may include (but will not be exclusive to) having insufficient resources generally or project management resources in particular to be able to effectively deliver a capital scheme.

## **Principle 7 – Approved Schemes in Progress (overspends)**

The first consideration before any new Capital Expenditure is to ensure that the existing approved capital programme is fully and properly funded. Except in exceptional circumstances, the first call on available capital resources will be to fund any overspendings on approved schemes which are contractually committed. An approved scheme that is in progress will only be cancelled when the Value for Money of that scheme becomes unviable. (I.e. the additional costs and risks outweigh the potential future benefits)

### **4. Short & Medium Term Capital Expenditure Needs & Priorities**

- a. The short and medium term Capital expenditure needs of the Council will be driven by the Corporate Plan and be identified in Service Business Plans and the Corporate Asset Management Plan. (CAMP).
- b. The CAMP is a consolidation of all existing Capital expenditure needs and priorities drawing on Service Asset Management Plans and other Corporate Priorities. It is both a “bottom up approach” (i.e. needs led) drawing upon changing demographics, changing demand and changing expectations of residents as well as a “top down” approach (i.e. priority led) based on the future direction of the Council set out in the Corporate Plan.
- c. In summary, the CAMP will identify:
  - The assets needed to deliver current and future services
  - The condition and sufficiency of those assets
  - The capital expenditure required to maintain and / or adapt those assets to ensure that they are “fit for purpose”
  - Unsuitable and surplus assets that are not required for the delivery of the Council’s services and could either be:
    - Re-used for another purpose
    - Re-developed or “mothballed” for future re-development
    - Transferred for Community or other Public Use
    - Disposed of via sale.
- d. The City Council has a wide range of service responsibilities, both statutory and non-statutory. In determining the needs and priorities for new Capital expenditure, a balanced approach will be taken to ensure that the needs and priorities of all service areas are considered including taking into account, the capital intensive nature of some services
- e. The Capital Strategy is dynamic and whilst the priorities and aspirations of the Council will remain broadly constant, the Capital expenditure to achieve those priorities may change. The Capital expenditure plans of the Council will be updated continuously and added to the Council’s Capital Programme following the proper approvals in accordance with the Council’s Constitution and Financial Rules. The Capital Planning process is described as part of the Financial Framework supporting the Delivery of the Capital Strategy in Section 7.
- f. The current key short and medium term Capital expenditure priorities for the Council are set out in Appendix B and cover the period 2019/20 to 2029/30.

## 5. Long Term Capital Expenditure Aspirations

- a) It is recommended that the City Council endorses the short to medium and long-term aspirations of the Capital Strategy, as set out in appendices 2 and 3
- b) The longer term aspirations that the Council has for the City are ambitious and rely on the Council applying the resources at its disposal in ways which deliver the greatest impact. Those resources include Capital Resources which will be targeted at Capital expenditure that has the greatest prospect of delivering the Council's aspirations.
- c) The Council has developed a wide range of longer term Capital expenditure proposals aimed at meeting the "Vision for Portsmouth", some of which have some or partially funding but the majority of which, the Council wishes to pursue but which are, as yet, unfunded. Section 7 (Appendices B & C) of this Strategy sets out the way in which these unfunded Capital expenditure plans could be achieved.
- d) The Council's key longer term Capital expenditure plans and aspirations aimed at delivering the Vision for Portsmouth are set out in Appendix 3.

## 6. Summary

This strategy sets out the key capital expenditure priorities over the short, medium and longer term.

Whilst the capital resources available are currently insufficient to meet all the capital expenditure Priorities of the Council, the financial framework set out in this strategy will provide the best opportunity for maximising resources and the best opportunity for applying those resources to that Capital expenditure which will make the greatest contribution to the Council's needs, priorities and aspirations.

Inevitably plans to achieve the Council's objectives over the short, medium and long term will change as will the capital resources available. This strategy has been designed to be flexible enough to accommodate any such changes whilst being robust enough to enable the Council's core objectives to be achieved.

## 7. Appendices

### **A - Contextual Background to Portsmouth**

Portsmouth is the UK's only island city, with Portsea Island accounting for 62% of the city's land mass. Portsmouth is the most densely populated area in the UK outside London, with an estimated population of 215,000 residing within 15.5 square miles.

Portsmouth is ranked 63rd most deprived out of 326 local authorities in England (where 1 is the most deprived), with 15% of the city's population experiencing income deprivation. Charles Dickens ward tends to be the most deprived ward in the city. 22% of all dependent children in the city are living in relative poverty (which is above the England average) and in some areas this rate is twice the national average (Charles Dickens). The percentage of children in the city known to be eligible for and claiming free school meals is higher than the national average, reflecting low incomes in the city.

The city is becoming more ethnically diverse. 16% of the City's overall population are not of White British ethnic origin, and this rises to 20% of school-age children. Over 100 languages are spoken by pupils attending Portsmouth schools.

There are approximately 88,000 dwellings in Portsmouth. Private stock accounts for nearly 81% of the dwellings in Portsmouth, with the remainder divided between the local authority (13%) and registered social landlords (6%). Nearly half of the private sector housing stock was built before 1919, which is more than twice the English average. In terms of dwelling type, 63% of Portsmouth's private dwellings are terraced houses, again twice the English average (29%).

Portsmouth performs a key role as an employment hub for its suburban hinterland, most notably the Boroughs of Fareham, Gosport and Havant which supply 24% of the city's workforce. Unemployment in the city is typically on a par with the average for Great Britain, but around 1% higher than the South East region's average. An estimated 4.9% of the city's 16 - 18 year olds are NEET (not in education, employment or training). This is lower than both the England average and the south east regional average, and is reducing. Adults in Portsmouth have lower than average levels of skills and qualifications, with approximately 27% of the working age population having no or low qualifications (NVQ1 equivalent). We know that local resident earnings are significantly lower than local workplace salaries, suggesting that many of the higher level jobs are filled by people commuting into the city.

Portsmouth is well connected with strategic road and rail routes as well as domestic and international ferry routes to a range of destinations. There are five train stations in the city, with the railway line running through the heart of the city, north to south. However, intercity rail journeys from and to Portsmouth are relatively slow. The opening of the Hindhead Tunnel has significantly improved road access to London, shortening journey times by 20mins. Consultation with residents suggests that affordability of public transport – especially bus fares – is a major issue. We also have limited road capacity due to the "island" nature of the city, and only three road routes off Portsea Island, although congestion measures compare well with other cities. We were the first 20mph city in the country.

To put the City Council's financial capacity into context, the Council owns over £1.5bn of capital assets and incurs capital expenditure on the enhancement and acquisition of new capital assets. As at 31<sup>st</sup> March 2018, the number of assets in various categories was as follows:

<b>Asset Type</b>	<b>Numbers of Asset</b>
Council Houses (Flats & Houses)	14,700
Investment Properties	270
Heritage Assets	87
Libraries (7 Standalone / 1 mobile / 1 toy library / 1 Community centre)	10
Schools	22
Community Centres	16

Effective asset management plays a major role in delivering better outcomes for residents. As at 31<sup>st</sup> March 2018, the City Council has over £1.5bn of assets under its ownership as follows:

<b>Asset Description</b>	<b>£m</b>
Council Dwellings	632
Other Land & Buildings	288
Vehicles, Plant & Equipment	32
Infrastructure Assets (e.g. Sea Defences, Roads & Footways)	197
Community Assets (e.g. Parks, Guildhall and Civic regalia)	3
Investment Properties (Offices & Shops leased)	163
Surplus Assets (Assets being prepared for sale)	2
Assets under Construction	96
Intangible	1
Heritage	74
<b>Total Assets' Value</b>	<b>1,488</b>

In addition, the City Council has transferred the majority of its highways network to a commercial company to manage and maintain under the Highways PFI contract and this has a value of approximately £110m. At the end of this contract in 2029, the road network will be transferred back to the City Council.

When set against the context of available capital resources, providing the necessary investment in Capital Assets to deliver the most important needs, priorities and aspirations of the City Council will be extremely challenging. To achieve the vision for the City of Portsmouth, the Council will need to be selective in the assets that it retains, maintains and invests in as well as any new assets that it acquires or builds.

**B - Short to Medium Term Capital Aspirations**



**KEY SHORT & MEDIUM TERM CAPITAL INVESTMENT NEEDS & PRIORITIES – 2019/20 to 2025/26**

Corporate Plan	Nature of Capital Investment	Source of Funding			Expected Outcome	Target Completion Date
		Total Capital Cost £'000s	Borrowing Requirement £'000s	Other Funding		
<b>Encourage regeneration built around our city's thriving culture</b>	Cultural Investment	2,000		2,000	A city with a distinctive culture established as a national and international destination	2025/26
	Port Investment	2,000		2,000	Increasing income to both the council and the city	2025/26
	Cruise & Terminal Development	54,200	54,200		Increasing income to both the council and the city	2025/26
	Berth 2 Investment	4,550	4,550		Increasing income to both the council and the city	2025/26
	Ferry Port Infrastructure Investment	7,800		7,800	Protecting the land for port employment	2025/26
	Container Park Resurfacing	4,000	4,000		Protecting the land for port employment	2025/26
	Crane Replacement	8,800	8,800		Investing in major infrastructure to unlock the city's potential	2025/26
	Passenger Access	9,500	9,500		Investing in major infrastructure to unlock the city's potential	2025/26
<b>Make our city cleaner, safer and greener</b>	Air Quality	1,300		1,300	Improving air quality by tackling congestion and parking issues	2022/23
	Investment in Green Energy	1,400		1,400	Improving air quality by tackling congestion and parking issues	2022/23
	Utilities & Energy Management	6,000		6,000	Making sure there are more good quality homes that local people can afford, including more council homes	2025/26
	Local Transport Plan	18,200		18,200	Improving road safety across Portsmouth	On-going
	City Centre Development	85,000		85,000	Focusing on sustainable growth and communities	On-going
	Seafront Development	2,000		2,000	Working together to secure the future of Southsea from coastal flooding, whilst providing the opportunity for further development and use of the seafront	2025/26
<b>Make Portsmouth a city that works together</b>	Waste Facilities	8,963	8,963		Reduce Waste and Improve recycling	2022/23
	Capital Maintenance & Renewal of City Wide Leisure Facilities	4,000		4,000	To create a high quality urban environment to regenerate our city and spaces, encouraging sustainable development and stimulating economic growth	2022/23
	Extra Care Living	9,700	9,700		Protecting, supporting and safeguarding the most vulnerable children and adults in our communities	2024/25
	Tipner Country Park	1,500		1,500	A city where all residents and visitors have opportunities to enhance their health and well-being and to be involved in building happier and healthier local communities	
<b>Make Portsmouth a great place to live, learn and play</b>	Capital Maintenance & Renewal of City Wide Leisure Facilities	1,050		1,050	A city where all residents and visitors have opportunities to enhance their health and well-being and to be involved in building happier and healthier local communities	On-going
	Critical Education IT System Upgrade	750		750	Working to ensure we have a modern, flexible, highly skilled, supported and motivated workforce to provide services that meet the needs of our residents	
	General Housing Investment	9,000	9,000		Support and Sustain Local Authority Housing and Private Sector Housing	2025/26
	HRA Investment	110,000		110,000	Maintain and improve PCC Assets	On-going
	Landlord's Maintenance	27,000		27,000	Maintain and improve PCC Assets	On-going
	Local Amenities' Investment	200		200	A city where all residents and visitors have opportunities to enhance their health and well-being	2020/21
	School Places	29,000		29,000	Investing in school buildings to create additional places and provide learning environments that meet the needs of all children	2025/26
<b>Make sure our council is a caring, competent and collaborative organisation</b>	Critical Back Office IT System Upgrade	2,350		2,350	Working to ensure we have a modern, flexible, highly skilled, supported and motivated workforce to provide services that meet the needs of our residents	
	IT Infrastructure	4,000		4,000	Working to ensure we have a modern, flexible, highly skilled, supported and motivated workforce to provide services that meet the needs of our residents	2020/21
	Voluntary Sector Investment	275		275	Developing community response to significant issues in the City	2022/23
<b>Grand Total</b>		<b>414,538</b>	<b>108,713</b>	<b>305,825</b>		

**C - Long Term Capital Aspirations**

**KEY LONG TERM CAPITAL INVESTMENT ASPIRATIONS – 2019/20 to 2029/30**

Corporate Plan	Nature of Capital Investment	Source of Funding			Expected Outcome	Target Completion Date
		Total Capital Cost £'000s	Borrowing Requirement £'000s	Other Funding		
<b>Encourage regeneration built around our city's thriving culture</b>	HRA Investment	30.0	30.0		Maintain and improve PCC Assets	2029/30 & Beyond
	Port - Berth Enhancements	28.5	28.5		Investing in major infrastructure to unlock the city's potential	2026/29
	Regeneration of Key Sites	150.0		150.0	Focusing on sustainable growth and communities	On-going
	Tipner West (Super Peninsular)	unknown	unknown	unknown	Regeneration of Tipner West to provide both housing and employment	Early stages of development
<b>Make Portsmouth a city that works together</b>	Capital Maintenance & Renewal of City Wide Leisure Facilities	7.0		7.0	To create a high quality urban environment to regenerate our city and spaces, encouraging sustainable development and stimulating economic growth	2029/30 & Beyond
	Sea Defences	25.0		25.0	To create a high quality urban environment to regenerate our city and spaces, encouraging sustainable development and stimulating economic growth	2029/30 & Beyond
	Capital Maintenance & Renewal of City Wide Leisure Facilities	1.5		1.5	To create a high quality urban environment to regenerate our city and spaces, encouraging sustainable development and stimulating economic growth	2026/29
<b>Make Portsmouth a great place to live, learn and play</b>		3.0		3.0	A city where all residents and visitors have opportunities to enhance their health and well-being and to be involved in building happier and healthier local communities	2026/29
	Regeneration of Housing Stock Including Leamington and Horatia Houses)	unknown	unknown	unknown	Support and Sustain Local Authority Housing and Private Sector Housing	Early stages of development
	School Places	10.0		10.0	Investing in school buildings to create additional places and provide learning environments that meet the needs of all children	2026/29
<b>Make sure our council is a caring, competent and collaborative organisation</b>	Critical Backoffice System Upgrade	2.0		2.0	Working to ensure we have a modern, flexible, highly skilled, supported and motivated workforce to provide services that meet the needs of our residents	2026/29
<b>Grand Total</b>		<b>257.0</b>	<b>58.5</b>	<b>198.5</b>		