

Agenda item:

Decision maker: Cabinet
City Council

Subject: Capital Programme 2019/20 to 2024/25

Date of decision: 4th February 2020 (Cabinet)
11th February 2020 (City Council)

Report by: Director of Finance and Resources & 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, innovation and clean 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 £68.6m.
- 1.3 The programme has been designed to support the environment and climate change agenda by investing £36.4m into green infrastructure which will deliver quality of life and environmental benefits to the city's residents and visitors. Included in this investment is: £22.2m for the construction of an anaerobic food waste digestion plant; a £10.2m investment to improve air quality through measures which will reduce carbon dioxide and nitrogen dioxide levels within the city; plans for the port to invest £2.9m to enable the installation of wind turbines, conversion from diesel to electric vehicles and a feasibility study and design of a "shore to ship" plug in facility to enable ships to switch off their generators whilst in port. These measures, once implemented, will significantly reduce port related emissions compared to current levels; further investment totalling £1.1m into electric vehicle charging infrastructure; expansion and extension of the food waste recycling pilot; the planting of new trees including street trees & other types of green infrastructure along with measures that will encourage walking and cycling as well as improve the neighbourhood and living environment are also planned.
- 1.4 The programme also supports educational attainment by investing £4.8m into school buildings. Of which £2.8m is to address an urgent need for forty additional places by September 2021 for pupils with complex educational needs. In addition, a contribution of £2m has been made to a phase 2 scheme to address, potential, future demand in

excess of one hundred places across mainstream and special schools over the next three to five years. A further £3.4m is also being invested into council buildings to ensure that they remain fit for purpose including improvements to cultural and leisure facilities totalling £1.3m.

- 1.5 Significant investment into the cultural, leisure and entertainment sectors amounting to £6.7m is planned. This includes an investment in the Kings Theatre and Guildhall totalling £6.4m which will ensure that the cultural and entertainment offer provided by these facilities meets the requirements of 21st Century audiences and also assures their financial sustainability into the long term. The programme also includes provision for a feasibility study/outline planning to replace Eastney swimming and phase 1 funding for public realm improvements as the Southsea sea defences scheme proceeds.
- 1.6 A full review of the current IT infrastructure has identified that significant new investment is necessary. Hardware currently deployed is old, increasingly costly to maintain and will require significant ongoing investment to refresh and keep current. In addition, the Council currently operates a single data centre and as a consequence, disaster recovery and overall resilience is limited whilst operating under this approach. It is proposed that the council moves to cloud based infrastructure by investing £6.6m over a three year period in order to achieve both the transformation of the IT function and to ensure that infrastructure is fit for purpose. Failure to adopt a cloud based approach at this time will result in the Council being increasingly vulnerable to significant ongoing operational and financial risk due to increasing obsolescence of the current infrastructure. A move to cloud will result in revenue savings over time as the Council's applications are moved off the data centre and into the cloud. A significant benefit of cloud platforms are their security features which are updated on a regular basis. Currently, the council is dependent on applying a complex suite of security to software that must be maintained, aligned and updated by staff. Implementing cloud based infrastructure also provides climate change benefits and a significant contribution to the Council's aspiration to become carbon neutral by 2030. The Azure cloud platform proposed is already carbon neutral. The energy costs attributed to the data centre currently amount to £66,000 per annum and represents 135 metric tonnes of carbon dioxide emissions per annum.
- 1.7 A further investment of £3.2m to reduce homelessness within the City through the acquisition of new council housing (£1.7m) and transitional accommodation for the homeless (£1.5m) is planned. £1m has also been provided to meet the cost of adaptations to carers' homes, or provide support to move home, to allow more children to be looked after by their extended family, to be adopted or to be fostered by in house foster carers.
- 1.8 As a key enabler of vibrant local communities, the underpinning and enabling of regeneration and the move towards a sustainable future, significant investment continues to be made into the core local transport infrastructure amounting to £1.6m to ensure transport networks are reliable and efficient; improve road and transport safety; manage the adverse impact of transport on the environment, and promote healthier travel.
- 1.9 Finally, spending of £4.8m on major regeneration activities are proposed, including port dredging to ensure the continued viability of port operations and the provision of a city centre co-working space which will be rented to SME's and start-up businesses to

bring employment back into the city centre and support the regeneration of the Commercial Road area.

- 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 2020/21 & Medium Term Budget Forecast 2021/22 to 2023/24" 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 2020/21 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 19th March 2019 "for investment in assets and for obtaining the resources required for that investment"
- Highlight the inter-relationship between the Capital Programme, the Revenue Budget, the Medium Term Financial Strategy and Treasury Management
- 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 2020/21 and future years in accordance with the Capital Strategy
- Describe and approve the Prudential Indicators arising from the revised Capital Programme 2019/20 to 2024/25
- Delegate authority to the Section 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 2019/20 to 2024/25 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 Section 151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council
- 3) That the Section 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) Subject to a satisfactory financial appraisal approved by the Director of Finance and Resources & Section 151 Officer, the following schemes as described in Section 9 and Appendix 2 be reflected within the recommended Capital Programme 2019/20 to 2024/25 and be financed from the available corporate capital resources:

Recommended New Capital Schemes	Corporate Resources Required £	Total Scheme Value £
Community Safety		
Redeployable CCTV Cameras	50,000	50,000
Culture & City Development		
CCTV - Portsmouth Museum & Cumberland House	50,000	50,000
City Museum	195,000	195,000
Farlington Pavilion	170,000	240,000
Portsmouth Watersports Centre	90,000	90,000
Southsea Castle	100,000	100,000
Kings Theatre Regeneration	350,000	4,650,000
Bransbury Park Pavilion	150,000	150,000
Kings Theatre Landlord's Backlog Maintenance Obligations	300,000	300,000
Southsea Common & Town Centres Litter Management	50,000	50,000
New Eastney Swimming Pool - Feasibility / Outline Plan	100,000	100,000
Education		
School Places SEND - Phase 1 & Phase 2	2,000,000	4,768,000
Environment & Climate Change		
Greening the City	100,000	100,000
Anaerobic Digestion Plant	200,000	22,200,000

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
	Food Waste Collection (Recycling) - expand by a further round	221,000	221,000
	Southsea Sea Defences - Public Realm Enhancements Phase 1	200,000	200,000
Health, Wellbeing & Social Care			
	Medina House Heating & Cooling System	110,000	110,000
Housing			
	Landlord's Maintenance - Repairs across the whole City Council Estate	2,140,000	2,140,000
	Transitional Accommodation for Homeless - Adaptations to General Fund Property	700,000	700,000
Leader			
	Electrification of Light Goods Vehicles	80,000	100,000
	Living Walls Phase 1	20,000	20,000
	Wind turbines at the Port	800,000	2,700,000
	The Camber Quay - Structural Investigations	50,000	50,000
	Shore to Ship Electric "Plug In" Facility (Feasibility / Design)	75,000	75,000
Resources			
	LAN Access Switches	528,000	528,000
	CISCO Data Centre Switches	60,000	60,000
	Replacement Servers & Storage	945,000	945,000
	Upgrade to Planet Press	650,000	650,000
	Checkpoint Internal Firewall	142,000	142,000
	Enterprise Voice (CISCO IPT)	630,000	630,000
Traffic & Transportation			
	Local Transport Plan 3	835,000	835,000
	Air Quality Improvement	220,000	10,220,000
	Electric Vehicle Charging Infrastructure	76,000	306,000
	Local Cycling and Walking Investment Plan	100,000	100,000
	Continuous Improvements to Neighbourhood Living and Street Environment	100,000	240,000
	Cycle Parking Across the City	25,000	25,000
	One-way Streets and Low Traffic Neighbourhoods	120,000	120,000
	Full Business Case For Extension to Tipner Park & Ride Multi Storey Car Park	500,000	500,000
	Non-PFI Asset Management Register/Plan	100,000	100,000
Total Recommended Sum To Be Approved		13,332,000	54,760,000

- 5) Subject to a satisfactory financial appraisal approved by the Director of Finance and Resources & Section 151 Officer the following schemes as described in Section 10 be funded from Prudential Borrowing up to the amounts shown

	Total Prudential Borrowing £
Anaerobic Digestion Plant	22,000,000
Port - Floating Dock Jetty Dredge	2,000,000
Wind turbines at Port	1,900,000
City Centre Co-working space	450,000
Kings Theatre Regeneration	3,000,000
Guildhall Regeneration	1,700,000
Acquisition of New Council Housing	1,700,000
Transitional Accommodation for Homeless (Adaptations to HRA Property)	800,000
Total Recommended Sum To Be Approved	33,550,000

- 6) Subject to a satisfactory financial appraisal approved by the Director of Finance and Resources & Section 151 Officer the following schemes as described in Section 11 be funded from the MTRS Reserve

Scheme	Total MTRS Funding £
Port - Floating Dock Jetty Dredge	1,000,000
City Centre Co-working space	450,000
Adaptions to Carers' Homes	1,000,000
Applications Upgrade linked to Software Modernisation	250,000
Office 365	820,000
Implementation of Northgate Citizen Access Suite	110,000
Migration to Azure (Cloud Servers)	2,348,000
Total Recommended Sum To Be Approved	5,978,000

- 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
Additional School Places - Primary & Secondary
Anti-Poverty Projects
Digital Strategy (incl. modernisation of Information Technology systems)
Landlord's Repairs and Maintenance
Local Transport Plan - Road safety and traffic improvement schemes
Local Football Facilities (Park Life)
Sea Defences
Berth 4 Replacement & Jetty Repairs at The Camber Quay
Cathodic Protection at the Hard
Design and Build of 2,000 Space Multi Storey Car Park at the Existing Park & Ride Site

- 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) 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 12 and Appendix 2 the release of £229,000 from the Culture & City Development Portfolio Reserve to fund the following schemes Canoe lake de-silting (£25,000); Parks & Open Spaces Boundary Protection Measures (£10,000); Burfields Road Barns - Demolition (£162,000), Hotwalls Paving Maintenance (£32,000)
- 4) As outlined in Section 12 and Appendix 2 the release of £20,000 from the Leader (Port) Portfolio Reserve towards a £100,000 scheme for the Electrification of Light Goods Vehicles
- 5) 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 Sections 8 and 14

4. Background

4.1 On the 19th March 2019 the City Council approved the Capital Strategy 2019/20 - 2028/29. 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 Council Plan / Priorities
- Statutory Obligations
- Financial Appraisal
- Option Appraisal
- Risk and 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

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:

- Essential to maintain operational effectiveness - including statutory responsibilities
- Essential to preserving and enhancing the natural environment and renewable resources

- Continued drive towards the regeneration of the City - by increasing prosperity through employment and reducing the extent to which the population needs Council services
 - Income Generation - reducing dependency on central government grants
 - Invest to Save - increasing the efficiency and effectiveness of the Council's activity
- 4.2 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.
- 4.3 The Administration have focussed a significant proportion of their available Capital Resources towards supporting the environment and climate change agenda by investing into green infrastructure which will deliver quality of life and environmental benefits to the city's residents and visitors.
- 4.4 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 £107m by The Environment Agency to complete improvements to the sea defences along Southsea Seafront leading to the protection of 8,000 properties from flooding. To unlock the economic potential of the City, the Council will also seek to embark on the first transport phase of a wider project to regenerate the City Centre by improving public transport links between Havant, Waterlooville, Fareham, Gosport and the Isle of Wight.
- 4.5 Other regeneration schemes in the pipeline include housing and employment space developments at Tipner and Horsea under the City Deal Programme and the continued development of a Business Park at Dunsbury Hill Farm.

- 4.6 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
Additional School Places - Primary & Secondary	0 - 5.0
Anti-Poverty Projects	0.4
Digital Strategy (incl. modernisation of Information Technology systems)	1.5 - 2.0
Landlord's Repairs and Maintenance	2.0 - 3.5
Local Transport Plan - Road safety and traffic improvement schemes	1.5 - 2.0
Local Football Facilities (Park Life)	2.0 - 4.0
Sea Defences	0 - 25.0
Berth 4 Replacement & Jetty Repairs at The Camber Quay	4.8 - 5.5
Cathodic Protection at the Hard	1.3 - 2.0
Design and Build of 2,000 Space Multi Storey Car Park at the Existing Park & Ride Site	31.0 - 33.0
Total Funding Requirement	44.5 - 82.4

- 4.7 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 £44.5m to £82.4m of Capital Investment, there is a hugely significant shortfall ("Capital Gap") to be met.
- 4.8 Given that some of this Capital investment is likely to have a transformational effect on both the City's growth and its role in addressing the challenge of climate change, there is a recommendation elsewhere on this agenda, to transfer any further underspending in 2019/20 arising at the year-end (outside of those made by Portfolios) to Capital Resources in order to provide funding for both the Council's statutory obligations and also to transform the City's growth potential.

5. Considerations in Formulating the Revised & Future Capital Programme

- 5.1 In considering the revised Capital Programme for 2019/20 and the future Capital Programme for 2020/21 to 2024/25, the following factors have been taken into account:
- The Medium Term Financial Strategy with its bias towards innovative 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 – 2019/20 to 2024/25

- 6.1 Since the revised Capital Programme 2018/19 to 2023/24 was approved in February 2019, 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 2019 (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 2019/20 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 2019/20. 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 2020/21 is awaited)	159,800
Health & Wellbeing Board:		
Disabled Facilities Grant	To be allocated in accordance with the arrangements for the distribution of the Better Care Fund (announcement of 2020/21 is awaited)	1,682,300
Total		1,842,100

8. Forecast of Corporate Capital Resources (Non Passported) 2019/20 & 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
- 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 £'000's	Grant Allocated in Previous Years £'000's	Available Resources To Be Pooled £'000's
Education			
LA Basic Need			
2019/20	2,283	(2,283)	0
2020/21	12,925	(12,925)	0
Capital Maintenance			
2019/20	736	(736)	0
2020/21	736	(736)	0
Housing			
Housing Capital Receipts			2,168
Traffic & Transportation			
Local Transport Plan (Integrated Transport)			
2019/20	1,851	(1,851)	0
2020/21	1,851	0	1,851
CIL			3,177
Total Contribution to Corporate Pool			7,196

8.6 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 £1.151m in 2020/21. The Council has not yet been notified whether an allocation from the Pothole Action Fund will be received in 2020/21, however any award will also be earmarked to fund the Unitary Charge paid to Ensign.
- that the Administration, in a previous, year has relied on all of the LA Basic Need Grant for the year 2020/21 to fund scheme proposals 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 2019 stood at £36.2m. 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:

Underspendings:

- Southsea Seafront Investment D-Day 75
- Reconfiguration of Corben Lodge
- Eastern Road Waterbridge

Overspendings / Funding Shortfalls:

- Children's Case Management Software Replacement
- Additional Special School Places - The Lantern
- Oakdene SJH Purchase & Remodelling
- Development of Cruise & Ferry Port
- Local Full Fibre Network Project
- Angelsea Road Footbridge
- Central Corridor

In Year Additions:

- Capital Grants for Disabled Looked After Children
- EC Roberts Centre Refurbishment Loan
- Lakeside North Harbour
- Portico Crane (Leased Plant & Equipment)
- Anodes
- Transforming Cities Fund
- Dunsbury Hill Farm Plot 5a
- Safer Roads Scheme

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 was formerly known as “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:
 - 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")	13,212
Add: Funds Released from Uncommitted Schemes	120
Total Corporate Capital Resources Available	13,332

9. Priority Capital Schemes – 2020/21 & Beyond (Corporate Resources)

- 9.1 The programme has been specifically designed to support the environment and climate change agenda which will deliver quality of life and environmental benefits to the city's residents and visitors. These measures include expansion and extension of the food waste recycling scheme to up to 9,000 additional properties; the installation of up to 9 wind turbines at the Port; a programme of measures to improve air quality which will reduce carbon dioxide and nitrogen dioxide levels across the City; the electrification of Port light goods vehicles and expansion of the electric vehicle charging infrastructure; the planting of new trees including street trees and other types of green infrastructure and measures which will encourage walking and cycling and improve the neighbourhood and living environment. The value of these environmental proposals total £36.4m of which £2.1m will be funded from corporate resources.
- 9.2 The programme also supports educational attainment by investing £4.8m into school buildings. Of which £2.8m is to address an urgent need for forty additional places by September 2021 for pupils with complex educational needs. In addition a contribution of £2m has been made to a phase 2 scheme to address, potential, future demand in excess of one hundred places across mainstream and special schools over the next three to five years.
- 9.3 The Administration also plan to support some of the most vulnerable people within the community by investing corporate resources into transitional accommodation for homeless families and the acquisition of 5 redeployable CCTV cameras to compliment the fixed cameras already deployed across the City to help prevent and tackle crime and disorder.
- 9.4 A full review of the current IT infrastructure has identified that significant new investment is necessary. Hardware currently deployed is old, increasingly costly to maintain and will require significant ongoing investment to refresh and keep current. In addition the council currently operates a single data centre and as a consequence, disaster recovery and resilience is limited whilst operating under this approach. It is proposed that the council moves to cloud based infrastructure by investing £6.6m over a three year period of which £3.0m will be funded from corporate resources in

order to achieve both the transformation of the IT function and to ensure that infrastructure is fit for purpose. Failure to adopt a cloud based approach at this time will result in the council being increasingly vulnerable to significant ongoing operational and financial risk due to increasing obsolescence of the current infrastructure. A move to cloud will result in revenue savings over time as the council's applications are moved off the data centre and into the cloud. A significant benefit of cloud platforms are their security features which are updated on a regular basis. Currently, the council is dependent on applying a complex suite of security to software that must be maintained, aligned and updated by staff. Implementing cloud based infrastructure also provides climate change benefits and a significant contribution to the council's aspiration to become carbon neutral by 2030. The Azure cloud platform proposed is already carbon neutral. The energy costs attributed to the data centre currently amount to £66,000 per annum and represents 135 metric tonnes of carbon dioxide emissions per annum.

- 9.5 Significant investment into other core services such as transportation and leisure services are planned, including: continued investment in transport networks to ensure they are reliable and efficient; improve road and transport safety; manage the adverse impact of transport on the environment and promote healthier travel. Funding for feasibility and design work is included for a new Eastney swimming pool along with funding provision for phase 1 public realm improvements to compliment the sea defence works planned in Southsea, investment in leisure facilities including football facilities and associated changing facilities, repair works to Southsea Castle along with significant backlog maintenance works at the Kings Theatre are also planned.
- 9.6 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.
- 9.7 At this time, the Administration is recommending the allocation of £13.3m 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 - Portsmouth's Vision & Corporate Plan Delivering Our five priorities	Corporate Resources Required £	Total Scheme Value £
Redeployable CCTV Cameras	Make our city cleaner, safer and greener	50,000	50,000
CCTV - Portsmouth Museum & Cumberland House	encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	50,000	50,000
City Museum	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures	195,000	195,000
Farlington Pavilion	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures	170,000	240,000

Capital Scheme	Capital Strategy - Portsmouth's Vision & Corporate Plan Delivering Our five priorities	Corporate Resources Required £	Total Scheme Value £
Portsmouth Watersports Centre	encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	90,000	90,000
Southsea Castle	encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	100,000	100,000
Kings Theatre Regeneration	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures	350,000	4,650,000
Bransbury Park Pavilion	encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	150,000	150,000
Kings Theatre Landlord's Backlog Maintenance Obligations	Make our city cleaner, safer and greener	300,000	300,000
Southsea Common & Town Centres Litter Management	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures	50,000	50,000
New Eastney Swimming Pool - Feasibility / Outline Plan	Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	100,000	100,000
School Places SEND - Phase 1 & Phase 2	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures	2,000,000	4,768,000
Greening the City	Make our city cleaner, safer and greener	100,000	100,000
Anaerobic Digestion Plant	Make our city cleaner, safer and greener	200,000	22,200,000
Food Waste Collection (Recycling) - expand by a further round	Make our city cleaner, safer and greener	221,000	221,000
Southsea Sea Defences - Public Realm Enhancements Phase 1	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures	200,000	200,000

Capital Scheme	Capital Strategy - Portsmouth's Vision & Corporate Plan Delivering Our five priorities	Corporate Resources Required £	Total Scheme Value £
Medina House Heating & Cooling System	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures	110,000	110,000
Landlord's Maintenance - Repairs across the whole City Council Estate	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	2,140,000	2,140,000
Transitional Accommodation for Homeless - Adaptations to General Fund Property	Make Portsmouth a city that works together, enabling communities to thrive and people to live healthy, safe and independent lives	700,000	700,000
Electrification of Light Goods Vehicles	Make our city cleaner, safer and greener	80,000	100,000
Living Walls Phase 1	Make our city cleaner, safer and greener	20,000	20,000
Wind Turbines at the Port	Make our city cleaner, safer and greener	800,000	2,700,000
The Camber Quay - Structural Investigations	Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	50,000	50,000
Shore to Ship Electric "Plug In" Facility (Feasibility / Design)	Make our city cleaner, safer and greener	75,000	75,000
LAN Access Switches	Make our city cleaner, safer and greener; Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do	528,000	528,000
CISCO Data Centre Switches	Make our city cleaner, safer and greener; Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do	60,000	60,000

Capital Scheme	Capital Strategy - Portsmouth's Vision & Corporate Plan Delivering Our five priorities	Corporate Resources Required £	Total Scheme Value £
Replacement Servers & Storage	Make our city cleaner, safer and greener; Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do	945,000	945,000
Upgrade to Planet Press	Make our city cleaner, safer and greener; Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do	650,000	650,000
Checkpoint Internal Firewall	Make our city cleaner, safer and greener; Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do	142,000	142,000
Enterprise Voice (CISCO IPT)	Make our city cleaner, safer and greener; Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do	630,000	630,000
Local Transport Plan 3	Make our city cleaner, safer and greener	835,000	835,000
Air Quality Improvement	Make our city cleaner, safer and greener	220,000	10,220,000
Electric Vehicle Charging Infrastructure	Make our city cleaner, safer and greener	76,000	306,000
Local Cycling and Walking Investment Plan	Make our city cleaner, safer and greener	100,000	100,000
Continuous Improvements to Neighbourhood Living and Street Environment	Make our city cleaner, safer and greener	100,000	240,000
Cycle Parking Across the City	Make our city cleaner, safer and greener	25,000	25,000
One-way Streets and Low Traffic Neighbourhoods	Make our city cleaner, safer and greener	120,000	120,000

Capital Scheme	Capital Strategy - Portsmouth's Vision & Corporate Plan Delivering Our five priorities	Corporate Resources Required £	Total Scheme Value £
Full Business Case For Extension to Tipner Park & Ride Multi Storey Car Park	Make our city cleaner, safer and greener; encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	500,000	500,000
Non-PFI Asset Management Register/Plan	Make our city cleaner, safer and greener; encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	100,000	100,000
		13,332,000	54,760,000

9.8 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 The following schemes meet the Prudential Borrowing Criteria outlined at paragraph 8.11 and it is recommended that prudential borrowing up to the limit shown for each scheme is approved.

Capital Scheme	Capital Strategy - Portsmouth's Vision & Corporate Plan Delivering Our five priorities	Prudential Borrowing Required £
Anaerobic Digestion Plant	Make our city cleaner, safer and greener	22,000,000
Port - Floating Dock Jetty Dredge	Make our city cleaner, safer and greener	2,000,000
Wind Turbines at the Port	Make our city cleaner, safer and greener	1,900,000
City Centre Co-working space	Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	450,000

Capital Scheme	Capital Strategy - Portsmouth's Vision & Corporate Plan Delivering Our five priorities	Prudential Borrowing Required £
Kings Theatre Regeneration	Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	3,000,000
Guildhall Regeneration	Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	1,700,000
Acquisition of New Council Housing	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures	1,700,000
Transitional Accommodation for Homeless (Adaptations to HRA Property)	Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit	800,000
		33,550,000

10.2 There is an expected prudential borrowing investment requirement for an Anaerobic Digestion Plant to enable additional recycling facilities for food waste. Approval of Prudential Borrowing totalling £22m is dependent upon the satisfactory conclusion of a feasibility study, site selection and a full business case approved by the Director of Finance and Resources & Section 151 Officer.

10.3 Prudential borrowing totalling £4.7m is also recommended to enable the regeneration of the Kings Theatre and Guildhall to enable these venues to meet the requirements of 21st Century audiences and also assure their financial sustainability into the long term. This borrowing is subject to a satisfactory financial appraisal approved by the Director of Finance and Resources & Section 151 Officer and the conclusion of legal terms with the respective operators of these venues acceptable to the City Solicitor.

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

11.1 Subject to a satisfactory financial appraisal approved by the Director of Finance & Resources & Section 151 Officer it is proposed that seven schemes receive funding via the MTRS Reserve as follows:

- An investment of £3m is planned to enable dredging next to the former floating dock jetty which will ensure sufficient depth is available for large ships calling at the Port and Portico to navigate the channel. As a consequence it is proposed that £1m of this investment is met from the MTRS Reserve as it will secure long term income streams at both the Port and Portico.

- Creation of city centre co-working office space on the first floor of the site formerly occupied by Marks & Spencer in Commercial Road is estimated to cost £1.8m. It is proposed that £450,000 is met from the MTRS Reserve.
- An investment of £1m is proposed to provide either adaptations for carers' homes or support to move home, to allow children to be looked after by either their extended family, to be adopted or to be fostered by in house foster carer. This will deliver estimated savings of £800,000 per annum relating to Looked After Children.
- Following database and hardware upgrades it is necessary to also update the applications that operate on these databases and hardware platforms. It is proposed this cost totalling £250,000 is met from the MTRS Reserve as the investment avoids additional costs that would otherwise arise.
- Replacement of the Council's 'MS Office' Software with 'Office 365' is estimated to cost £820,000, it is proposed that this cost is met from the MTRS Reserve as the investment avoids additional costs that would arise if the council continued to operate 'MS Office'
- Implementation of Northgate Citizen Access Software Suite is estimated to cost £180,000. It is proposed that £110,000 is met from the MTRS Reserve as it is expected to result in future savings of £30,000 per annum.
- Migration to Azure (Cloud Servers) is estimated to cost £2,348,000. Migration to Cloud Servers avoids significant additional costs compared to maintaining the server estate on-premis in the medium term. It is therefore proposed that this investment cost is met from the MTRS Reserve.

12. New Capital Schemes to be Funded From Portfolio Reserve

- 12.1 City Council note an investment of £229,000 from the Culture & City Development Portfolio Reserve to undertake Parks & Open Space Boundary Protection Measures (£10,000); to demolish barns at Burrfields Road (£162,000); de-silting of Canoe Lake (£25,000) and Paving Maintenance at the Hotwalls (£32,000), as set out in more detail in Appendix 2.
- 12.2 City Council note a contribution of £20,000 from the Leader (Port) Portfolio Reserve towards an investment of £100,000 for the replacement of diesel light goods vehicles with electrically powered light goods vehicles at the port, 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
Additional School Places - Primary & Secondary
Anti-Poverty Projects
Digital Strategy (incl. modernisation of Information Technology systems)
Landlord's Repairs and Maintenance
Local Transport Plan - Road safety and traffic improvement schemes
Local Football Facilities (Park Life)
Sea Defences
Berth 4 Replacement & Jetty Repairs at The Camber Quay
Cathodic Protection at the Hard
Design and Build of 2,000 Space Multi Storey Car Park at the Existing Park & Ride Site

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 Current forecast revenue deficits amount to £2.6m in 2020/21, £2.2m in 2021/22, £3.8m in 2022/23 and £3.0m in 2023/24. 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. The 4 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 2020/21, 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.

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. It is complimentary and intertwined with the Council's Revenue Budget proposals to deliver a substantial package of Capital Investment that supports the delivery of the Council's Medium Term Financial Strategy, its Capital Strategy and other key service strategies.
- 15.2 As a whole, the Capital Programme is designed to make a meaningful contribution towards the improving the environment and climate change, drive clean economic growth, support schools in their pursuit of improved educational attainment, protect the vulnerable, enhance the cultural experience of the city and generate savings and income for the Council in order to protect essential services from future cuts.
- 15.3 This programme also 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. Integrated 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 Integrated 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 Resources & 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 2020/21	Office of Deputy Director of Finance
Capital Strategy 2019/20 – 2028/29	Council's Web Site

The recommendations set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 11th February 2020

Signed:

**CAPITAL
PROGRAMME
&
FINANCING**

2019/20 - 2024/25