



Portsmouth
CITY COUNCIL

CAPITAL STRATEGY

2020/21- 2029/30

“Working Together: putting people at the heart”

Part I Capital Expenditure and Aspirations

CONTENTS

- 1. Definition, Purpose & Scope**
- 2. Portsmouth Vision & Corporate Plan – “Strategic Fit”**
- 3. Key Capital expenditure Principles**
- 4. Short & Medium Term Capital expenditure Needs & Priorities**
- 5. Long Term Capital expenditure Aspirations**
- 6. Summary**
- 7. Appendices**

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)

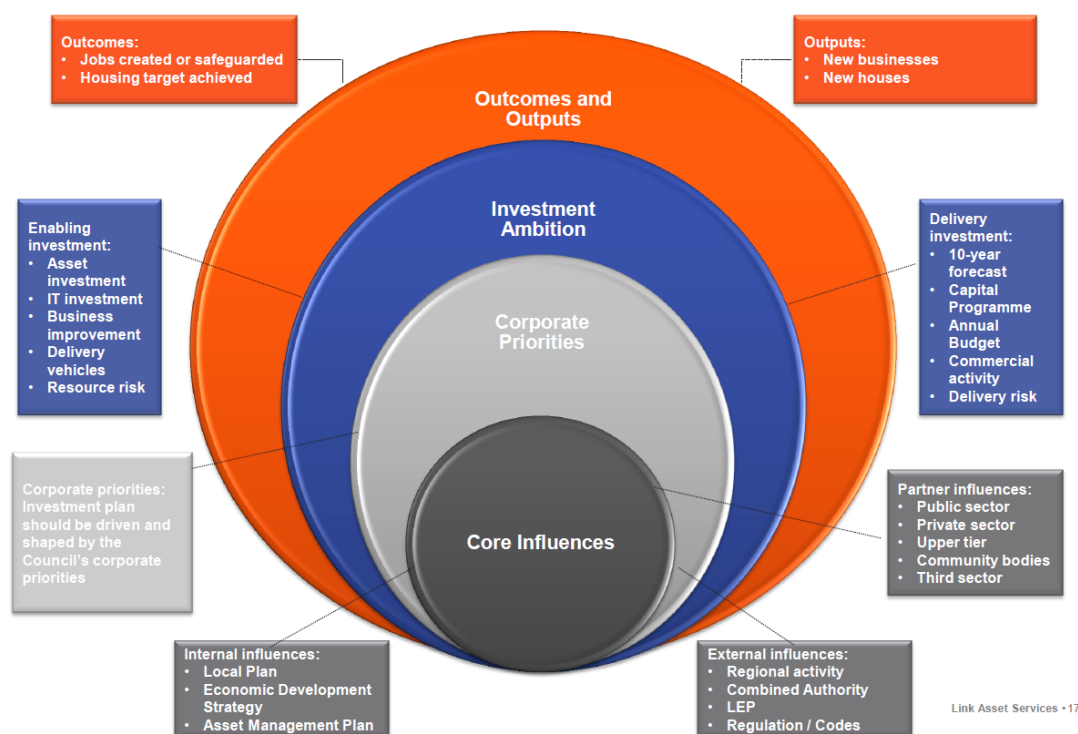
Capital expenditure also includes grants and advances made to the public or private sector for capital purposes, such as advances to Registered Social Landlords to provide adaptations to houses meet the needs of vulnerable people

- 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 requirement for full Council to approve an annual Capital Strategy linking with the Council's asset management plans and its 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

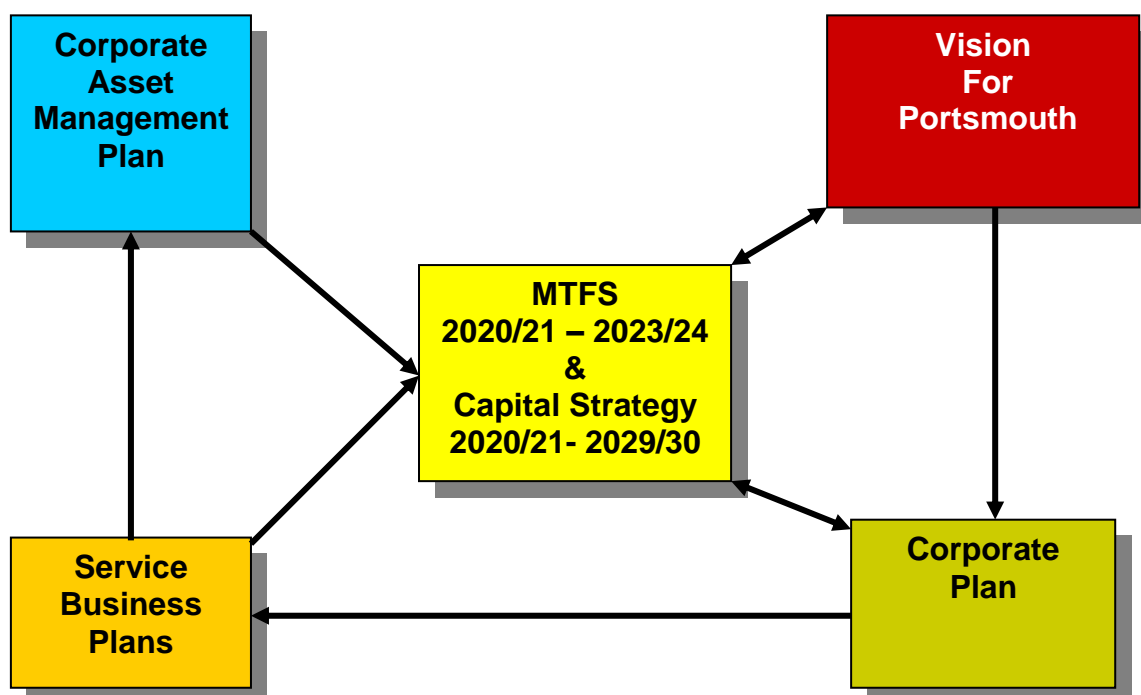
a. The Vision for Portsmouth is:

“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 creativity, innovation 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 security of the investment with 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.

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 appendix 1
- 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 partial funding, but the majority of which, are currently unfunded. Section 7 (Appendix 1) 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 1.

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.

Appendix 1
Capital Aspirations (Short / Medium / Long-term)

KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2020/21 ONWARDS

Corporate Plan	Nature of Capital Investment	Source of Funding			Expected Outcome
		Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	
Encourage regeneration built around our city's thriving culture	Berth 4 Replacement & Jetty Repairs at The Camber Quay	5,150		5,150	Protect income to both the Council and the City
Encourage regeneration built around our city's thriving culture	Demolition and Replacement of Social and Affordable Housing	111,000	102,000	9,000	Increase supply of affordable housing
Make our city cleaner, safer and greener	Local Transport Scheme	1,750		1,750	Improving road safety across Portsmouth
Make our city cleaner, safer and greener	Design & Build 2000 Space Multi Story Car Park at the existing Park & Ride site	32,000		32,000	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
Make our city cleaner, safer and greener	Environmental Initiatives	10,000		10,000	To facilitate improvements to the city's environment
Make Portsmouth a city that works together	Local Football Facilities	3,000		3,000	To create a high quality urban environment to regenerate our city and spaces, encouraging sustainable development and stimulating economic growth
Make Portsmouth a great place to live, learn and play	Additional School Places - Primary & Secondary	2,500		2,500	Investing in school buildings to create additional places and provide learning environments that meet the needs of all children
Make Portsmouth a great place to live, learn and play	Landlords Repairs & Maintenance (across the whole PCC Estate)	2,750		2,750	Maintain and improve PCC Assets
Make Portsmouth a great place to live, learn and play	Cathodic Protection at The Hard	1,650		1,650	Maintain and improve PCC Assets
Make Portsmouth a great place to live, learn and play	Sea Defences - Enhancements - Future Phases	10,000		10,000	To improve the sea defences
Make sure our council is a caring, competent and collaborative organisation	Digital Strategy	1,750		1,750	Working to ensure we have a modern, flexible, highly skilled, supported and motivated workforce to provide services that meet the needs of our residents
	Total Investment	181,550	102,000	79,550	