



Portsmouth
CITY COUNCIL

CAPITAL STRATEGY

2023/24- 2032/33

PART I

**“Portsmouth People Value Collaboration,
Community, Equality, Respect and Innovation”**

PART I Capital Expenditure and Aspirations

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1. Definition, Purpose & Scope

Definition

1.1. 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).

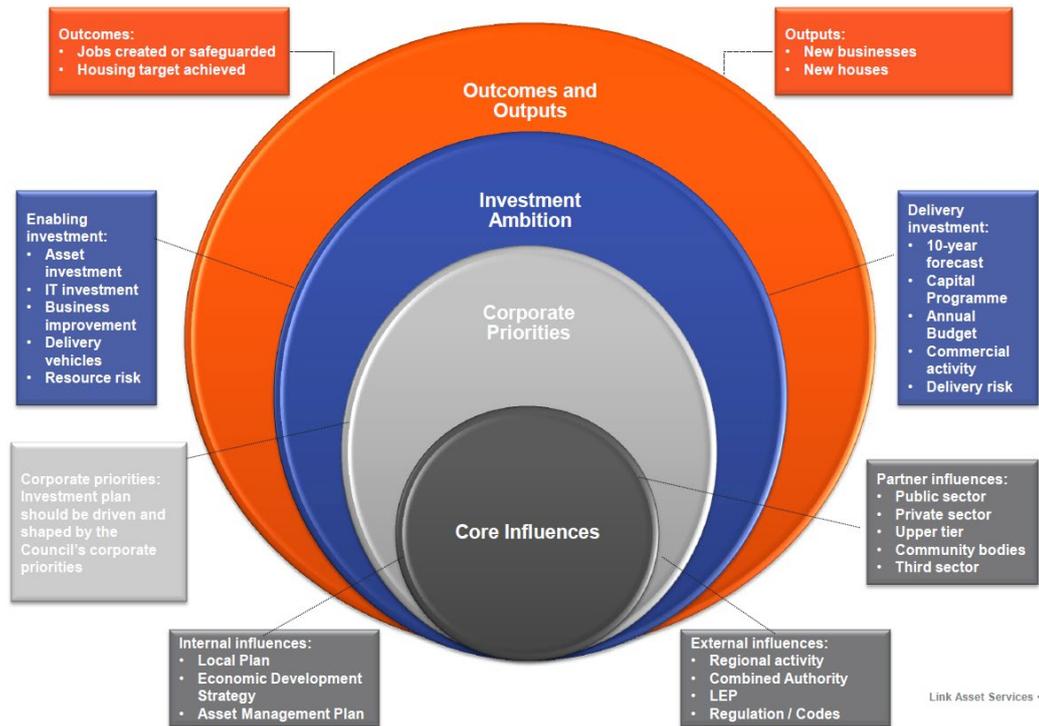
Capital expenditure also includes grants and advances made to the public or private sector for capital purposes, such as advances to Registered Social Landlords to provide adaptations to houses meet the needs of vulnerable people.

1.2. 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.

1.3. 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

- 1.4. 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 and aspirations. That plan describes what will be achieved, by when with key milestones and how it could be funded.
- 1.5. 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.
- 1.6. 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.
- 1.7. Following the December 2021 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

- 1.8. 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.
- 1.9. 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.
- 1.10. New Capital Expenditure will be targeted towards those schemes that meet the Council's statutory responsibilities and that are most likely to drive cost reduction for the Council, innovation and clean economic growth and productivity for the City.
- 1.11. The top 3 most important service areas for residents at present are, in order of popularity:
 - i. Ensuring older people and vulnerable adults are looked after and supported to live independently
 - ii. Collecting bins and keeping the city clean
 - iii. Keeping children safe and families together
- 1.12. Additionally, for future investment of the Council's capital budget, the four most popular project areas selected by respondents are, in order of popularity:
 - i. Building new homes in the city, including flats offering special care for elderly residents
 - ii. Building more classrooms and specialist provisions for children with additional needs
 - iii. Improving facilities at Portsmouth international Port to increase the money it generates to help protect local services
 - iv. Creating better facilities for sustainable transport such as cycling and walking

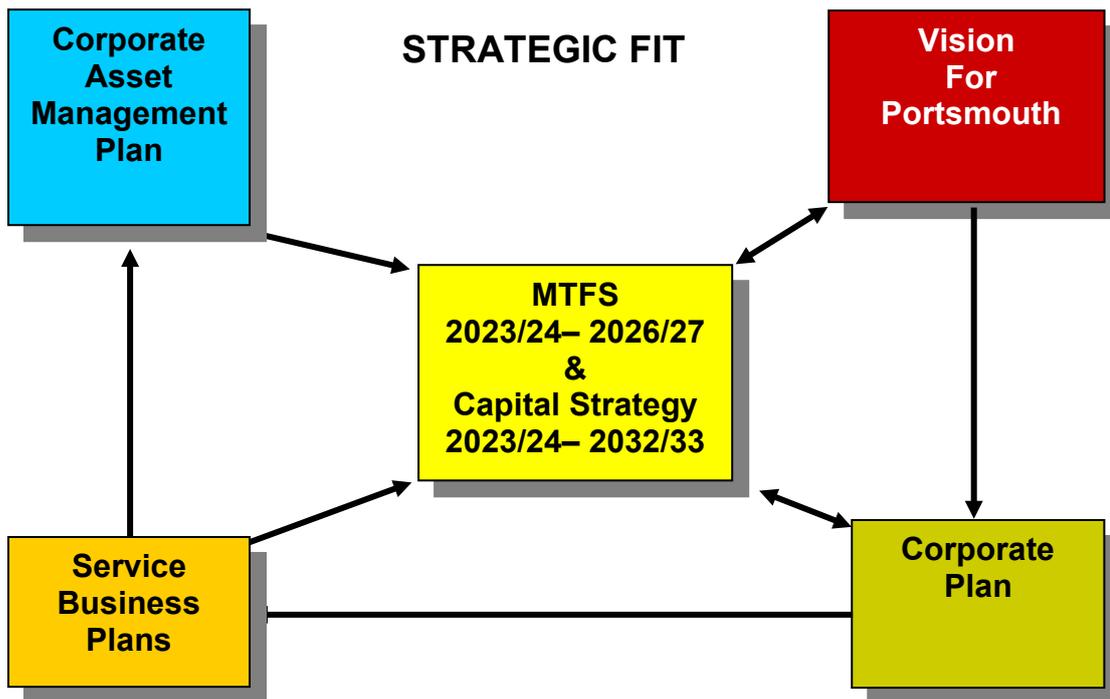
2. Portsmouth Vision & Corporate Plan – “Strategic Fit”

2.1. The Vision for Portsmouth is:

“Portsmouth people value collaboration, community, equality, respect and innovation.”

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

- A healthy and happy city
 - A city rich in culture and creativity
 - A city with a thriving economy
 - A city of lifelong learning
 - A green city
 - A city with easy travel
- 2.2. 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 strategies set out the financial frameworks that exist to support the achievement of the vision and priorities.
- 2.3. 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.
- 2.4. 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.
- 2.5. 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 on the next page:



- 2.6. The Corporate Asset Management Plan and Service Business Plans are the more immediate “needs analysis” and “bottom up” drivers that feed the MTFS and Capital Strategy. 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.
- 2.7. A core feature of this Capital Strategy is to 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 cost reduction, innovation and clean economic growth and productivity for the City.

3. Key Capital Expenditure Principles

- 3.1 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:

3.2 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 timeframe.

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 4 – 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 5 - Risk

The Capital expenditure should neither place the Council in a position where the risks associated with the Capital expenditure exceed the benefits of undertaking that investment, nor 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 6 – Approved Schemes in Progress (overspends)

The first concern before any new Capital Expenditure is considered, 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. Capital Resources

- 4.1 The financial framework governing the allocation of Capital Resources 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.
- 4.2 Allocation of corporate capital resources (i.e. non passported sources of finance) available to the City Council for new capital schemes comprise the following:
- 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
 - Other Corporate Capital Grants & Contributions e.g. Community Infrastructure Levy
 - Any Revenue Contributions to Capital
 - 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.

Unless there is a compelling case in the wider public interest, any capital receipts received from assets previously appropriated between the General Fund and the Housing Revenue Account be used in any way to relieve the

Council (HRA or General Fund) of its associated ongoing debt burden. Such uses will include:

- A voluntary contribution to the repayment of debt (i.e. Voluntary Minimum Revenue Provision)
- The funding of (or contribution to) a capital scheme that will generate long term income streams that exceed the ongoing debt burden
- The funding of a capital scheme that will reduce expenditure or avoid costs at a level that exceeds the ongoing debt burden
- Any combination of the above.

5. Short & Medium Term Capital Expenditure Needs & Priorities

5.1 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).

5.2 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.

5.3 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.

5.4 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.

5.5 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.

6. Long Term Capital Expenditure Aspirations

- 6.1. 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.
- 6.2. 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.
- 6.3. 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. Appendix 1 of this Strategy sets out the way in which these unfunded Capital expenditure plans could be achieved.
- 6.4. The Council's key longer term Capital expenditure plans and aspirations aimed at delivering the Vision for Portsmouth are set out in Appendix 1.

7. Summary

- 7.1. This strategy sets out the key capital expenditure priorities over the short, medium and longer term.
- 7.2. 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.
- 7.3. 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.

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Capital Strategy				
Major Schemes Receiving Funding in 2023/24				
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Funding Approved 2023/24 £'000s	Expected Outcome
A City of lifelong learning	Education 2023 24 & 2024 25 Conditions	1,537	1,537	A 2 year Planned Programme to address urgent school condition issues (Priority 1: Urgent repairs that require remedy within 1-2 years); priority items raised in the school condition surveys, and other statutory items recommended as a priority by Housing, Neighbourhood & Building Services
A City of lifelong learning	SEND - School Places	9,794	1,500	A programme to ensure that there are sufficient places for children and young people with SEND by ensuring mainstream places are able to meet needs where possible, and by creating sufficient specialist places in inclusion centres attached to mainstream schools and in special schools
A green city	Anaerobic Digestion Plant Project	35,775	13,515	This scheme will complete the next phase of the development of a 93,000 tonne Anaerobic Digestion facility, taking it to the submission of an outline planning application and then through to delivery of the full scheme
A green city	Green Waste Club (GWC) Bins	100	100	As part of bringing the waste collection service in-house, the Council will be taking over managing the Green Waste Club (GWC) collections from Biffa. In order to take over the service, the Council will also need to provide residents with a 240 litre brown bin
A green city	Greening the City - Doubling the Tree Canopy	100	100	Planting of trees within the City to double the existing tree canopy

Capital Strategy				
Major Schemes Receiving Funding in 2023/24				
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Funding Approved 2023/24 £'000s	Expected Outcome
A green city	Twin Stream and City-Wide Food Waste Collection Service	2,500	2,500	Improvements to a range of recycling collections.
A city with a thriving economy and a green city	Shore Power	23,000	23,000	To provide a suitable and adequate shore supply facility at Portsmouth International Port, Berths 2, 3 & 4 allowing new hybrid ferries and a number of the port's existing and new cruise customers to connect electrically to the Port switching off their main and secondary engines assisting the port in meeting carbon reduction and air quality targets
A healthy and happy City - supporting people to live active, healthy lives	Mountbatten Centre Roofing Project	6,800	5,800	This scheme is to replace the existing 1980's roof at the Mountbatten Centre which has reached the end of its life and will include a new waterproofing system and the replacement of ageing plant
A Green City and a City with a thriving economy	Landlord's Maintenance Priority 1 Schemes	1,400	1,400	The Council has landlord maintenance responsibility for over 2,000 operational assets. Detailed surveys are carried out and updated annually, to ensure that maintenance needs of all assets are recognised and planned for within the medium term maintenance programme. Remediation requirements are categorised according to their severity and impact. Only works classified as being of the highest priority will proceed. Proposed maintenance work combines a number of projects including building works, mechanical and electrical installations and plant refurbishments that address critical health and safety issues

Capital Strategy				
Major Schemes Receiving Funding in 2023/24				
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Funding Approved 2023/24 £'000s	Expected Outcome
A city with a thriving economy and a green city	City Centre North Regeneration	19,575	4,450	This project continues to support the delivery of the wider city centre regeneration masterplan
A Green City with a thriving economy and easy travel	LTP 4 and other Transport Related Schemes	1,290	1,290	Transport is an enabler of activity and will underpin regeneration in the Portsmouth area. The regeneration and economic success of the city is dependent upon the reliability of the transport network, enabling people, freight and goods to access, and travel within the city
All other new capital investment 2023/24		6,157	6,132	
Total		108,028	61,324	

Capital Strategy					
KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2024/25 ONWARDS					
		Source of Funding			
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	Expected Outcome
A City of lifelong learning	Additional Specialist School Places - SEND 4 - 16	40,000		40,000	Investing in specialist school places in both special schools and mainstream schools (existing and new) to ensure there is local provision that can meet the needs of SEND children with Education, Health and Care Plans

Capital Strategy					
KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2024/25 ONWARDS					
		Source of Funding			
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	Expected Outcome
A City of lifelong learning	Additional Specialist School Places - SEND Post-16	11,000		11,000	Investing in specialist school places to ensure there is local provision that can meet the needs of older SEND children with Education, Health and Care Plans
A City of lifelong learning	Additional Mainstream School Places - Secondary and Primary	10,000		10,000	Investing in primary and secondary school places to meet the forecast shortfall in 26/27 (secondary only) and local needs arising from housing developments within the City, notably Tipner East and West and city centre developments
A City of lifelong learning	Relocation of The Harbour School at Tipner	15,000		15,000	The education team have identified that the Harbour Schools at Tipner is no longer fit for purpose and to improve the educational outcomes for this cohort of Students a new provision should be considered elsewhere in the city
A City of lifelong learning	Maintenance of LA Maintained School Buildings (rolling programme)	25,000		25,000	Maintain and improve Local Authority maintained school buildings to ensure they are safe and provide suitable accommodation for teaching and learning
A City of lifelong learning	Improving IT Infrastructure for Education and Children's Social Care	500		500	Maintain and improve PCC Assets
A healthy and happy City	Maintenance of Children, Families and Education Portfolio Buildings	2,000		2,000	Maintain and improve PCC Assets over the next 10yrs (e.g. PCC children's homes, family hubs)
A healthy and happy City	Carer's adaptations	500		500	Improve the number of children who can be cared for in homes within the city
A green city	Living Walls	1,000		1,000	To facilitate improvements to the city's environment
A city with a thriving economy	Crane Replacement - 40 Tonne	350		350	Maintain and improve PCC Assets

Capital Strategy					
KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2024/25 ONWARDS					
		Source of Funding			
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	Expected Outcome
A city with a thriving economy	Berth 5 Linkspan Replacement	15,000		15,000	Protect income to both the Council and the City
A city with a thriving economy	Berth 3 Linkspan Replacement	20,000		20,000	Protect income to both the Council and the City
A city with a thriving economy and a green city	Freight Gate Automation	2,000		2,000	Maintain and improve PCC Assets
A city with a thriving economy and a green city	Freight Inspection Point	500		500	Maintain and improve PCC Assets
A city with a thriving economy and a green city	Switch Room 1	750		750	Maintain and improve PCC Assets
A city with a thriving economy and a green city	Check-In Booths Automation	2,000		2,000	Maintain and improve PCC Assets
A healthy and happy City - supporting people to live active, healthy lives	Farlington Pavilion refurbishment	250		250	Refurbishment of internal facilities
A healthy and happy City - supporting people to live active, healthy lives	Replace Langstone Pavilion	1,000		1,000	Replacement of ageing Pavilion and portable changing rooms increasing the life of the asset
A healthy and happy City - supporting people to live active, healthy lives	Invest in Young People's Play over 10 years (£1m in alternate years)	5,000		5,000	Replace equipment over a period of years to spread life expectancy and to include works that are not necessarily fixed equipment in fenced sites

Capital Strategy

KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2024/25 ONWARDS

Source of Funding

Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	Expected Outcome
A healthy and happy City - supporting people to live active, healthy lives	Invest in Public Open Spaces across the City (- including drainage works and Canoe Lake improvements)	1,000		1,000	Build outcomes of Covid 19 and invest in public open spaces to increase their value as public assets further- increasing maintenance and green features to cope with demand and meet public expectation
A healthy and happy City - supporting people to live active, healthy lives	Horsea Island Countryside Ecological Reserve	200		200	Additional works to develop the site as a Countryside Ecological Reserve
A healthy and happy City - supporting people to live active, healthy lives	Conversion of West Chapel at Kingston Cemetery, Milton and South Kingston Lodge refurbishment	1,500		1,500	To provide office accommodation and toilets (Heritage Lottery funding being sought)
A healthy and happy City - supporting people to live active, healthy lives	Seafront & Old Portsmouth - Phase 3 - Grand Parade including Nelson's Column area	100		100	To maintain and improve customer experience whilst increasing the life of assets
A City rich in Culture & Creativity and A City of Lifelong Learning	Refurbishment of Southsea Library	250		250	Maintain/Improve customer experience through reconfiguration of space and new furniture and fittings
A City rich in Culture & Creativity	Refurbishment of ornamental Gardens	250		250	Enhance usage of popular Southsea sites
A City rich in Culture & Creativity	Upgrade of Library Facilities	350		350	Structural works and improvements to facilities including supporting future aspirations for Central Library
A City rich in Culture & Creativity	Maintenance & Upgrade of Museum facilities	1,330		1,330	To replace the heating system and update building appearance to enhance visitor experience

Capital Strategy					
KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2024/25 ONWARDS					
		Source of Funding			
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	Expected Outcome
A City rich in Culture & Creativity	Secure facility for Museum collection	1,100		1,100	To repair either existing or to identify an alternative repository for the City's Museum collection
A healthy and happy City - supporting people to live active, healthy lives	Seafront Lighting Enhancements - Phase 2	100		100	Lighting improvements to the seafront
A City rich in Culture & Creativity	Southsea Castle- repairs to underground tunnels	275		275	Enhance the visitor experience
A healthy and happy City	Expansion and development of supported living and respite accommodation within the city.	10,000		10,000	Increase the range of accommodation within the city and to enable people to live independently within their communities
A healthy and happy City	Expansion of use of Assistive Technology.	1,000		1,000	Increase the range of services available within the city to promote and sustain independence
A healthy and happy City	Property Maintenance: implementing maintenance programs to ensure ASC buildings remain as safe and secure assets within the city	500		500	Ensure properties remain operational, able to service the residents of the city
A healthy and happy City	Maximising use of enhancements and developments in technology to support the delivery of direct care services.	500		500	To ensure that the provision of care services are run as efficiently and effectively as possible to deliver high quality services to residents

Capital Strategy					
KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2024/25 ONWARDS					
		Source of Funding			
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	Expected Outcome
A healthy and happy City	Maximising use of enhancements and developments in technology to support the efficient and effective delivery of services (e.g. mobile assessment tools, e-forms, e-information, support & signposting for clients, reporting tools, etc.)	1,500		1,500	To ensure that the service maximises the opportunities from enhancements and developments in technology, so services are delivered efficiently and effectively for the benefit of the residents of Portsmouth
A City with a thriving economy	Tipner Infrastructure	200,000		200,000	Supporting the City Deal at Tipner with new infrastructure including land raising, decontamination, new sea defences and a new bridge to Horsea island
A City with easy travel	Local Transport Scheme (rolling programme)	6,000		6,000	Improving road safety across Portsmouth
A City with easy travel	Preparation of the city's road network to interact with connected vehicles - Smart Cities phase 3	500		500	Supporting the move to autonomous vehicles and better public transport
A City with easy travel	Tipner Transport Hub	45,000	25,000	20,000	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
A green City	Environmental Initiatives	9,170		9,170	To facilitate improvements to the city's environment
A healthy and happy City	Landlords Maintenance 2023/24 Backlog plus 2024/25 priority 1 repairs	4,500		4,500	To maintain and improve PCC Assets in 2024/25
A healthy and happy City	PCC Estate Landlords Repairs & Maintenance (rolling programme)	10,400		10,400	To maintain and improve PCC Assets. Assumed 3-year programme 2025/26 to 2027/28

Capital Strategy

KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2024/25 ONWARDS

		Source of Funding			
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	Expected Outcome
A Green City and a city with a thriving economy	Lakeside Solar PV	13,000		13,000	Provision of Solar PV and battery storage. Cost avoidance and income generation.
A healthy and happy City	Sea Defences - Enhancements - Future Phases	15,000	5,000	10,000	To enhance the sea defences with borrowing to support some commercial opportunities
A City with a thriving economy	Regeneration of Former Tricorn Site	125,000	62,500	62,500	The delivery of Additional Residential accommodation, employment and public realm improvements in the City Centre
A City with a thriving economy	Regeneration of Sainsbury's Site	200,000	180,000	20,000	The delivery of Additional Residential accommodation, employment and public realm improvements in the City Centre
A City with a thriving economy	Supporting Ravelins Business Plan	180,000	180,000		Housing led developments to deliver BTR products in the City's broken markets funded by unsupported borrowing
A healthy and happy City	New Watersports Centre	30,000	20,000	10,000	Mixed use development to encourage an active lifestyle, develop communities and improve health outcomes
A healthy and happy City	Regeneration in Fratton	38,600	31,500	7,100	The purchase of a High Street site will enable the redevelopment of unit to mixed use including residential and commercial
A healthy and happy City	Housing Development - Somers Orchard	198,000	184,000	14,000	The Somers Orchard scheme creates a development of social housing to replace the council owned social housing lost when two tower blocks were deconstructed. The scheme proposes to use part of the development site for the PCC wholly owned housing company to develop a build to rent

Capital Strategy					
KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2024/25 ONWARDS					
		Source of Funding			
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	Expected Outcome
					block of flats and the scheme will improve the public realm in the surrounding area. Commercial and community space are also part of the scheme.
A healthy and happy City	Housing development - Cabbagefield Row	30,000	20,000	10,000	Housing developments at Cabbagefield Row
A healthy and happy City	Development - Paulsgrove Community Centre				Housing development and new community facilities at Paulsgrove Community Centre. Brief being developed - Budget to be determined
A healthy and happy City	Housing Development - Hilsea Lodge				Housing development - North of the City Brief being developed - Budget to be determined
A healthy and happy City	Hilsea Lido Development	6,000	4,320	1,680	Refurbishment of the Hilsea Lido site
A green City	Digital Strategy	1,750		1,750	Programme to introduce the use of digital technologies to ensure the most effective and efficient way of managing council assets including digitising paper records and untethering records management from expensive and insecure on premises storage solutions (i.e. in the civic office and its basement), introducing digital post, increasing the digital capability of our workforce to ensure we continue to meet the needs and expectations of our residents.

Capital Strategy					
KEY SHORT / MEDIUM / LONG TERM CAPITAL INVESTMENT NEEDS & PRIORITIES - 2024/25 ONWARDS					
		Source of Funding			
Corporate Plan	Nature of Capital Investment	Total Capital Cost £'000s	Borrowing Requirements £'000s	Other Funding £'000s	Expected Outcome
A Green City and a City with a thriving economy	Civic Offices Redevelopment	To be determined	To be determined	To be determined	Creating a modern flexible space from which to deliver services to residents, creating community spaces, supporting city regeneration and sustainability of our buildings
A City with easy travel	Development of the City Centre Road Network to open the City Centre for Further Development	28,200		28,200	The City Centre Road will address the current problems that lead to congestion and poor air quality within the city centre. To support the building of a new city centre, there will be a need to change some of the roads around the city centre and also the way traffic moves around these and also over the wider area
A City with easy travel	Transport Hub - Southsea	20,000		20,000	Regeneration of the Hovertravel site and the relocation and redevelopment of Clarence Pier public toilets into a new Transport Hub and public realm area for Southsea
A City with easy travel	Super Cycle Highway	10,000		10,000	Feasibility, design and implementation of infrastructure improvements to ensure joined up and connected cycle routes from the North of the City to the City Centre and Seafront
Total Future Investment		1,342,925	712,320	630,605	

Total Capital investment included within this strategy £1,450,953

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Portsmouth
CITY COUNCIL

CAPITAL STRATEGY

2023/24- 2032/33

PART II

**“Portsmouth People Value Collaboration,
Community, Equality, Respect and Innovation”**

PART II Borrowing and Investing

CONTENTS

- 1. Net Debt**
- 2. Borrowing**
- 3. Investments**
- 4. Skills and Knowledge**
- 5. Treasury Management Reporting**

A key activity is to know when and how much to borrow when the Council requires more cash and investing when the Council has surplus cash. In this way, it manages the Council's cashflows. This activity is known as Treasury Management.

1. Net Debt

- 1.1 Borrowings increase when capital schemes are financed from borrowing and decrease when debt is repaid.
- 1.2 The Council's reserves and working capital are invested until the money is required to finance expenditure.
- 1.3 The Council's forecast net debt, i.e. its borrowings less its investments are summarised in the table below. This forecast is based on the Council using its reserves to finance capital expenditure in the medium term, rather than undertaking new external borrowing for as long as possible. This is beneficial to the Council's revenue budget as the interest on borrowings normally exceeds the return on the Council's investments. However, this position cannot be maintained in the long term with the Council's net debt increasing year on year, and it is expected that the Council will have to undertake further external borrowing or sell investment properties in 2024/25

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
Borrowings	748	735	773	804	789	774
Less Investments	(325)	(125)	(50)	(39)	(25)	(24)
Net Debt	423	610	723	765	764	750

2. Borrowing

- 2.1 In the past, the principal source of borrowing has been the Public Works Loan Board, (PWLB) which is operated by HM Treasury. The PWLB can still be used to replace existing debt or to reschedule debt. However, a recent change in the PWLB's lending terms requires Local Authorities to confirm that they do not plan to purchase investment assets primarily for yield or use incidental income from the development of commercial properties for regeneration purposes to fund wider services.
- 2.2 There are now alternative sources of borrowing available including public listed bonds and private placements. A public listed bond could be cheaper than the PWLB but would require a minimum sum of £100m to be borrowed and the Council would need to obtain a credit rating. A private placement would have a similar cost to the PWLB but would require a minimum sum of £30m to be borrowed and would be subject to a credit assessment by prospective lenders.
- 2.3 This Capital Strategy identifies capital aspirations that may be included in future capital programmes. Prior to any borrowing, a full business case and financial appraisal is prepared that can satisfactorily demonstrate with good certainty that cost savings / additional income or value uplift of the development which will

directly accrue the Council, will at least cover the cost of that borrowing on a sustained basis over the lifetime of the borrowing undertaken.

- 2.4 Outstanding long-term debt is reviewed regularly with a view to early redemption and rescheduling; although premiums would be payable to the lender and consequently early redemption and rescheduling are rarely financially beneficial to the Council.

Affordability of Borrowing

- 2.5 To ensure future budgets remain affordable, except for debt repaid using capital receipts, the Council needs to be aware that capital expenditure financed from prudential borrowing incurs both **interest costs** and a **Minimum Revenue Provision (MRP)** for the repayment of debt.
- 2.6 The Council has a policy of calculating MRP on an annuity basis. This means that MRP will start at a relatively low level but require increasing amounts of MRP to be set aside year on year, especially for assets with long useful economic lives. This creates a period of low MRP during the early years as income builds, or savings start to accrue. The distribution of MRP over the life of a capital scheme is determined by the prevailing interest rate. The lower the interest rate, the higher the MRP is in the early years. Therefore, although the interest costs on new borrowing will be lower, MRP in the early years will be higher.
- 2.7 It is estimated that MRP will amount to £9.1m in 2023/24. The inclusion of further schemes in the capital programme financed by prudential borrowing will further increase the MRP.

Key Risks

- 2.8 There are risks with borrowing more than the Council can afford. To mitigate these risks, the Chartered Institute of Public Finance and Accountancy (CIPFA) has produced the Prudential Code for Capital Finance in Local Authorities, which is a statutory code governing local authority borrowing. The Prudential Code requires the Council to establish various indicators over a minimum of 3 years to demonstrate that its capital programme is both affordable and prudent. The Council publishes its Prudential Indicators, over a 5-year period, within its capital programme and the Council then reports its position against the prudential indicators at the end of each financial year.
- 2.9 To ensure that the borrowing required to finance the capital programme is affordable, the Council:
- estimates the ratio of its financing costs to its net revenue stream
 - estimates the ratio of net income from commercial and service investments to its net revenue stream.

To ensure that the Council's capital programme is prudent, the Council:

- publishes a capital programme which includes estimates of its underlying need to borrow as measured by its capital financing requirement

- is required to approve an Authorised Limit for external debt and an Operational Boundary when it approves its capital programme.

2.10 The **Authorised Limit** for external debt, as set by the City Council, is the maximum amount of debt which the authority may legally have outstanding at any time. The authorised limit includes headroom to enable the Council to undertake borrowing to take advantage of unexpected movements in interest rates and to accommodate any short-term debt or unusual cash movements that could arise during the year.

2.11 Whilst the Authorised Limit cannot be breached, the **Operational Boundary** is based on the probable external debt during the year. It is not a limit but acts as a warning mechanism to prevent the authorised limit (above) being breached.

Sensitivity Analysis

2.12 The Council's gross debt on 31 March 2022 was as follows:

	£m	£m
Fixed Rate Borrowing	636	
Finance Leases	1	
Private Finance Initiative (PFI) Schemes	50	
Sub Total - Fixed Rate Debt		687
Lenders Option Borrowers Option (LOBO) Loan	11	
Retail Price Index (RPI) linked loan	65	
Sub Total - Variable Rate Debt		76
Total Gross Borrowing		763

90% of the Council's borrowing has a fixed interest rate, but the Council does have two variable rate loans.

- The lender of the LOBO loan has an option to increase the interest rate every two years. The lenders next option is on 19 March 2023. If the lender does increase the interest rate the Council, then has the option to repay the loan.
- The Council has £66m outstanding on a loan which links the instalments payable by the Council to the RPI. The Council has leased the Isle of Wight Ferry Terminal in White Heart Road to Wightlink on an RPI linked rent that mirrors the instalments payable on this loan mitigating the consequences of increases in RPI.

Minimum Revenue Provision (MRP) for Debt Repayment

2.13 Early in 2018 the Government issued revised statutory guidance on MRP requiring the repayment of General Fund prudential borrowing to be provided for within 50 years.

The following MRP policies (applied to calculating the MRP) are set out in the table below and are fully compliant with this policy. It is recommended the City

Council approves the Annual Minimum Revenue Provision (MRP) for Debt Repayment Policies set out in the table below (Recommendation 3.2a).

Borrowing	MRP Methodology
<u>General Fund Borrowing:</u>	
Supported borrowing other than finance leases and service concessions including private finance initiative schemes #	50-year annuity
Finance leases and service concessions including private finance initiative schemes *	MRP equals the principal repayments made to lessors and PFI operators
Prudential borrowing excluding borrowing to fund long term debtors (including finance leases), investment properties and equity shares purchased in pursuit of policy objectives	Annuity over life of asset
Prudential borrowing to fund long term debtors	The repayments of principal are set aside to repay the borrowing that financed the original advance
Prudential borrowing to fund finance leases	The principal element of the rent receivable be set aside to repay the borrowing that financed these assets
Prudential borrowing to fund investment properties with an expected holding period of under 50 years	The repayment of unsupported borrowing will be provided for by setting aside the capital receipt when the property is disposed of including any surplus over the cost of acquisition unless the carrying (market) value of the property falls below that part of the purchase price financed from unsupported borrowing. If this happens MRP will be made for the shortfall over the residual life of the property. Any uplifts in rental income beyond that in the budget will be used to make MRP.
Prudential borrowing to fund investment properties with an expected holding period of over 50 years	Annuity over life of asset
Prudential borrowing to fund equity shares purchased in pursuit of policy objectives	25-year annuity
<u>Housing Revenue Account (HRA)</u>	No MRP debt will be provided until 2024/25. From 2025/26 it will be provided again for the HRA Self Financing Payment in equal instalments over 30 years. MRP is not provided for other HRA debt.

The Council applied the last of its supported borrowing 2011/12

* If transactions that take the legal form of finance leases but in substance amount to borrowing, the MRP policy relating to self - financed borrowing will be adopted. An example of when this could happen would be when the Council grants a head lease to an institution in return for an upfront premium and leases the asset back from the same institution in return for a rent.

- 2.14 The Council had a review of its MRP policy in 2016/17. Consequently, it highlighted that the previous methods used in the past have resulted in over provisions of MRP from 2008/09 to 2015/16 of £22.6m. The Director of Finance and Resources (Section 151 Officer) will release the over provision of MRP back into General Fund balances over a prudent period by reducing the MRP in future years under delegated authority.

3. Investments

3.1 Treasury Management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

3.2 Service Delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration, and local infrastructure. Dunsbury Park, Portsmouth Retail Park, Portico and Ravelin are included in this category as income received would be used for regeneration purposes. Returns on this category of investment which are funded by borrowing are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

3.3 Commercial Return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must no longer borrow to invest primarily for financial return.

Due Diligence

- 3.4 The Council initially identifies suitable Treasury Management investments using credit ratings from Fitch, Moody's, and Standard and Poor. Where possible, credit ratings are compared to insurance premiums against a counter party defaulting. Insurance premiums against a counter party defaulting can be compared to a widely used index of the market (ITRAAX). If the market has concerns about a borrower, it should be reflected in a higher insurance premium. Although credit ratings are supported by an in-depth analysis of the borrower, insurance premiums provide a more up to date indicator of a borrower's credit worthiness. Prior to making investments, any news relating to the borrower is also considered.
- 3.5 All property acquisitions require a business case which includes a full financial appraisal. The detailed business case and financial appraisal includes building

surveys, environmental surveys and valuations in accordance with the Red Book. In addition, properties continue to be revalued on an annual basis.

- 3.6 Other sources of information that are relevant to particular sectors are also considered either as a substitute for credit ratings and insurance premiums in sectors where these are not available or to supplement credit ratings and insurance premiums. Examples of this are the governance and viability ratings assigned to larger registered social landlords (RSLs) by the Homes and Communities Agency (HCA), and data sets published by the Building Societies Association

For further detail on the Council's investment criteria, see the Treasury Management Policy.

Service and Commercial Investments Acquired Through the Capital Programme

- 3.7 According to the CIPFA Treasury Management Code, investment properties acquired through the capital programme are regarded as investments in addition to investments of surplus cash.

- 3.8 CIPFA has revised the Prudential Code relating to service and commercial investments so that:

- 1) The risks associated with service and commercial investments should be proportionate to a local authority's financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
- 2) An authority must not borrow to invest for the primary purpose of commercial return;
- 3) It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
- 4) An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
- 5) A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
- 6) Local authorities should create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

Statutory Guidance

- 3.9 The Government issued revised statutory guidance on local government investments early in 2018 coming into effect from 01 April 2018. The guidance requires Councils not to borrow purely for financial gain.

The Government's revised statutory guidance also requires local authorities to present a range of indicators to allow members and other interested parties to understand the total exposure from borrowing and investment decisions. It is recommended that the indicators contained in the Appendix be approved. The Government's statutory guidance requires the Council to consider the long-term sustainability risk implicit in becoming too dependent on commercial income or in taking out too much debt relative to net service expenditure. In particular, the Government's statutory guidance requires the City Council to set limits that cannot be exceeded for gross debt compared to net service expenditure, and for commercial income as a percentage of net service expenditure. It is recommended that if these limits are exceeded, the Director of Finance and Resources (Section 151 Officer) bring a report to the Cabinet and City Council.

Activity in the Investment Property Market

- 3.10 The Council has an investment property portfolio that it acquired over a number of years for £163m.
- 3.11 The Council's overall long-term strategy is to dispose of its investment property portfolio and to mitigate the risks attached to the investment property portfolio in the meantime. The Councils exit strategy is as follows:
- 1) To sell property when it becomes clear from a property and financial perspective that a sale will be preferable to a hold and rent (based on frequent review of forward cash flow forecasts)
 - 2) Use all proceeds to make MRP (including any surpluses)
 - 3) If the carrying (market) value of a property falls below that part of the purchase price financed from unsupported borrowing, MRP will be made for the shortfall over the residual life of the property.
 - 4) Any uplifts in rental income beyond that in the budget to be used to make additional MRP
 - 5) The savings in debt costs to contribute towards the loss of rental income to the General Fund. Over time the significance of the rental income will reduce as it is eroded by inflation.
- 3.12 The Council disposed of one investment property in 2022/23. A further investment property is currently being renovated prior to sale.

The Commercial Property Portfolio is managed by an in-house team who are qualified members of the Royal Institute of Chartered Surveyors.

Investment Indicators

Gross General Fund (GF) Debt to GF Net Service Expenditure

- 3.13 The Council's GF borrowing is forecast to be two times its GF net service expenditure in 2023/24. It is recommended that GF borrowing be limited to five times GF net service expenditure in 2022/23. This will allow further borrowing to be undertaken if it is financially advantageous.

Income from Investments for commercial and service purposes to General Fund (GF) Net Service Expenditure

- 3.14 The Council will depend on income from investments for commercial and service purposes to fund 10.3% of its estimated GF net service expenditure in 2023/24. To ensure that the Council does not become over dependent on income it is recommended that no more than 15% of GF net service expenditure will be funded from investment income.

Interest Cover

- 3.15 The Council's investment property portfolio has been financed from borrowing. There is therefore a risk that income from investment properties may be insufficient to pay the interest incurred on the associated debt. However, the net income from the investment property portfolio exceeds the cost of the associated interest 2.4 times.

Loan to Value Ratio

- 3.16 The Council's investment property portfolio has only recently been acquired, but the market value of the properties is thought to be sufficient to repay the borrowing that financed their acquisition.

Forecast Income Returns

- 3.17 The investment property portfolio is expected to make a net return of 2.3% against the original cost of the properties in 2023/24. There is a dip in the net income from the investment property portfolio in 2022/23 due to one of the properties being refurbished.

Gross and Net Income from Investment Properties

- 3.18 The investment property portfolio is expected to generate a retained income of £3.9m in 2023/24.

External Operating Costs

- 3.19 External operating costs are driven by lease events such as rent reviews and lease renewals. Some years have more lease events than others.

4. Skills and Knowledge

- 4.1 The issues covered by this report are in their nature complex, so all the Council's senior finance staff are chartered accountants. Where the Council does not have the necessary in-house skills and services, it employs Link Asset Services to provide interest rate and economic forecasts, and counter party information.

The Treasury Manager is a qualified Chartered Certified Accountant and holds the Association of Corporate Treasurers Certificate in Treasury Management.

- 4.2 On 31 March 2022 £35,500,000 of the Council's investments of surplus cash were being managed externally consisting of £23,000,000 invested in instant access money market funds, £4,800,000 invested in a multi-asset fund and £7,700,000 invested in corporate bonds that were being externally managed.
- 4.3 The City Council is also a member of Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Network which provides training events throughout the year. Some training is also provided by Link Asset Services. Additional training for investment staff is provided as required.

Councillors are offered training by an external consultant to provide them with an overview of treasury management after the local government elections.

5. Treasury Management Reporting

- 5.1 Treasury management has been defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as "the management of an organisations borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks". Put simply, the Council's approach to cash flow includes:

- Borrowing when the Council requires more cash
- Investing when the Council has surplus cash.

- 5.2 In addition to the Capital strategy, the Council also has a Treasury Management Strategy. The Treasury Management Strategy contains:

- the Treasury Management Indicators that set the boundaries within which treasury management activities will be undertaken and
- an Annual Investment Strategy that specifies how surplus cash will be invested.

- 5.3 To demonstrate good governance, all treasury management reports taken to the Governance and Audit and Standards Committee and all treasury management reports requiring policy decisions are taken to the Cabinet and the City Council.

Report	Reporting of Compliance & Performance in Previous Period	Policy Changes	Audience
Treasury Management Policy		Yes	G&A&S Committee Cabinet City Council
Treasury Management Quarter 1 Monitoring	Yes		G&A&S Committee
Treasury Management Mid-Year Review	Yes	Yes	G&A&S Committee Cabinet City Council
Treasury Management Quarter 3 Monitoring	Yes		G&A&S Committee
Treasury Management Outturn	Yes		G&A&S Committee