



Portsmouth
CITY COUNCIL

CAPITAL STRATEGY
2024/25 - 2033/34

PART I

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).

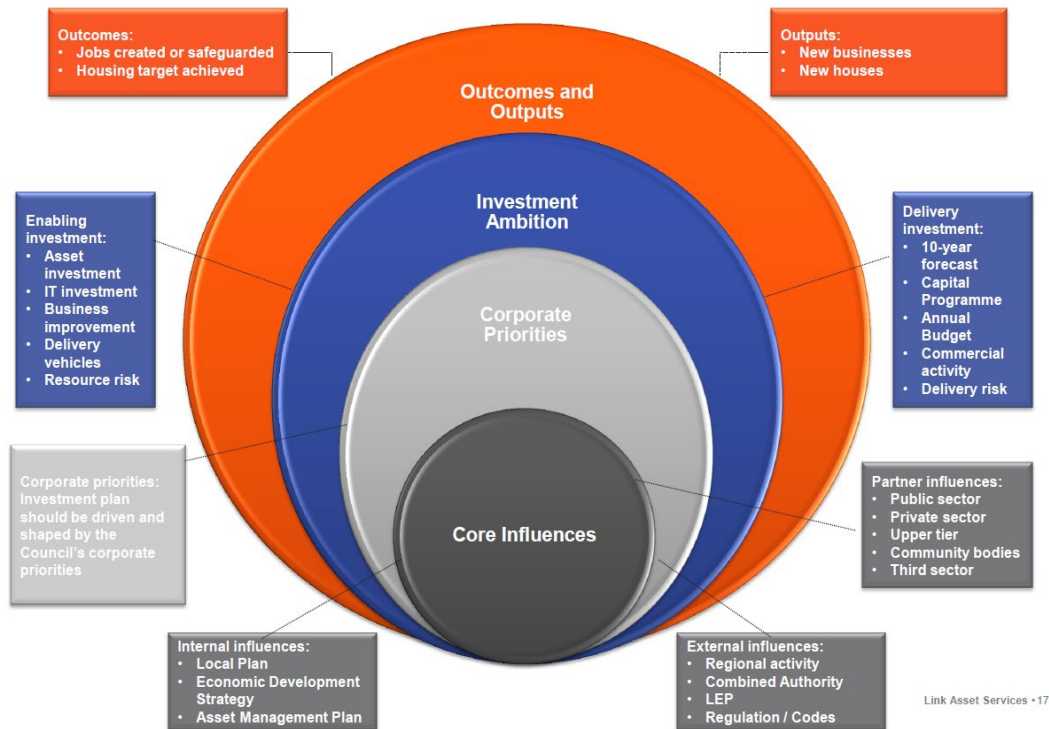
Capital expenditure also includes grants and advances made to the public or private sector for capital purposes, such as advances to Registered Social Landlords to provide adaptations to houses that meet the needs of vulnerable people.

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 publication of the CIPFA Prudential Code for Capital Finance in Local Authorities', there is 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. Based on the 2023 Budget Consultation with residents, the top 3 priorities at present are, in order of popularity:
 - i. Ensure people have access to the health and care services they need
 - ii. Making sure people feel safe and supported in their homes and communities
 - iii. Regenerate major sites to create homes, jobs and economic opportunities in the city.
- 1.12. Additionally, for future investment of the Council's capital budget, the 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. Invest in greening projects across the city
 - iii. Creating better facilities for sustainable transport such as cycling and walking
 - iv. Build more classrooms and specialist provision for children with additional needs
 - v. Invest in facilities as part of the new sea defences
 - vi. Investing in new sport and leisure facilities and maintaining existing ones
 - vii. Improving facilities at Portsmouth International Port to increase the money it generates to help protect local services
 - viii. Buying or developing new technology to help the council work more efficiently.

2. Strategic Fit

- 2.1. 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.
- 2.2. 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.

- 2.3. 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.
- 2.4. The MTFs and CS are driven by 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 Council's asset management plans in terms of the short and medium term needs and priorities of the Council.
- 2.5. Service Business Plans and asset management 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 to deliver priority outcomes. Service Business Plans also feed into asset management plans which seeks to align the Council's asset base with our corporate plans and objectives. Asset management plans identify 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.
- 2.6. A core feature of this Capital Strategy is to assist in the delivery of 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 and aspirations contained within the Corporate Plan.

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 contributes to the needs, priorities and aspirations of the Council as defined within asset management plans and Corporate Plan
- 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 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 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 offers 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, 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.

4.3 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 asset management plans.

5.2 The Corporate Plan, Service Asset Management Plans and Service Business Plans 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 Asset management plans 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 In accordance with the Council's Capital Strategy and Medium Term Financial Strategy, in developing capital investment plans for 2024-25, (which were approved by Full Council on 13 February 2024) the Cabinet prioritised those schemes that:

- 1) Provide for statutory requirements including School Places, Transport Safety, Homelessness and necessary Health and Safety obligations
- 2) Ensure that the Council's services to residents continue to operate from safe "fit for purpose" buildings
- 3) Support the renewal of the Council's aging Leisure Estate and end of life sports and play facilities across the City
- 4) Continue the Council's environmental agenda, including the downsizing of the Civic Offices and further greening initiatives
- 5) Continue with the Council's key regeneration opportunity for the City Centre North, aiming to stimulate housing and employment in the Council's most deprived area.

6.2 As described earlier in this report the key responses arising from the Budget Consultation for the future investment of the Council's Capital Programme selected by respondents are, in order of popularity:

- Building new homes in the city, including flats offering special care for elderly residents (49%)
- Invest in greening projects across the city (37%)
- Create better facilities for sustainable transport such as cycling and walking (37%)
- Build more classrooms and specialist provisions for children with additional needs (37%).

6.3 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. Known obligations and aspirations, in line with the Medium Term Financial Strategy, for future capital investment once further capital resources become available include:

Statutory Obligations:

- Additional extensions / additions to schools in respect of pupils with complex educational needs in order to provide for additional school places
- Provision of additional disabled facilities grants
- Requirements to improve road safety, disabled access and air quality
- Landlords Repairs & Maintenance.

Improving the City Economy:

- Further development of key employment, housing and regeneration sites
- Anti-Poverty projects
- Coastal protection schemes to protect homes and businesses
- Improvements to road transport infrastructure as a means of supporting new business growth and productivity generally as well as the protection of the tourism economy.

Enhancing the Environment:

- Greening the City
- Creating space and access.

Public Service Transformation:

- Developing the Digital Council
- Use of technology to provide greater personal independence for those with care needs.

- 6.4 Accordingly, the Cabinet has identified some further specific priority and aspirational capital schemes to be pursued as further capital funding becomes available:
- Investing in a rolling programme of investment into council assets subject to the outcome of the Asset Management Strategy
 - Enabling works and land assembly associated with the City Centre North scheme
 - The Civic Offices regeneration / replacement scheme
 - Greening and environmental improvement schemes
 - Investing in replacing play park equipment across the City based on the strategy prepared by the Parks team
 - Investing in refurbishing outside sports courts based on the strategy prepared by the Parks team
 - Investing into schemes delayed due to inflationary pressures and higher than anticipated interest rates
 - Completing the East-West cycle corridor
 - Delivering future stages of the Eastern Road cycle lane scheme
 - Enhancing the Southsea Sea Defences.
- 6.5 It is recommended that the City Council endorses the short to medium and long-term aspirations of the Capital Strategy, as set out above.

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.