

Agenda item

Decision maker:	Cabinet City Council
Subject:	Capital Programme 2016/17 to 2021/22
Date of decision:	9 th February 2017 (Cabinet) 14 th February 2017 (City Council)
Report by:	Director of Finance and Information Service & Section 151 Officer
Wards affected:	All
Key decision:	Yes
Budget & policy framework decision:	Yes

1. Executive Summary

- 1.1 In accordance with the Council's Capital Strategy and Medium Term Financial Strategy the Administration, through these proposals, have prioritised those schemes that meet the Council's statutory responsibilities and those that are most likely to drive cost reduction for the Council and economic growth for the City.
- 1.2 The Administration's new scheme proposals contained within this report will lead to additional capital investment totalling £155.7m.
- 1.3 The programme has been designed to support educational attainment by investing £6.6m into school buildings. This will provide sufficient school places for the rising population and also meet the most critical repairs across the school estate, targeting resources at schools with the most acute needs. In addition a further £2.1m is being invested in other council buildings (including Children's Homes, Museums and Libraries) to ensure that they remain fit for purpose.
- 1.4 City Council contributions totalling £1.25m were made in 2016/17 towards an £89m¹ scheme for Sea Defence works across Old Portsmouth, Southsea and Eastney. A further firm contribution of £1.25m is now proposed with a future commitment (subject to sufficient available capital resources) of a further £3.5m in future years. In addition repair schemes at Kings Bastion and Old Portsmouth Sea Walls totalling £0.72m are also planned.
- 1.5 Significant investment continues to be made into core City transport infrastructure amounting to £2m. The continued investment in the Local Transport Plan facilitates economic development by ensuring transport networks are reliable and efficient; improves road and transport safety; manages the adverse impact of transport on the environment and promotes healthier travel. In addition, proposals for

¹ Assuming further contributions from the Council were made available in future periods of £3.5m

improvements to the Eastern Corridor Road Link, enhancements to the neighbourhood living and street environments and installation of variable message signs along Southsea Seafront are also planned by the Administration.

- 1.6 In order to unlock the economic potential of the City, the Administration proposes to increase firm City Council contributions towards a circa £45m² project for an upgraded City Centre access road by £3m. This scheme will ensure that all forms of transport can flow freely in and out of the City Centre in a way that accommodates future growth, enabling residents, tourists and businesses to access the City with ease and facilitating 2,600 additional homes and 9,700 permanent jobs. This will increase the contribution made available by the City Council to £15m in total.
- 1.7 An investment of £3.07m in new technology is planned to enable the replacement of ageing Children's and Adult Social Care software systems, from which the supplier will be withdrawing software support from 2020. These replacement applications will increase capability and ensure resilience whilst reducing annual running costs.
- 1.8 Finally, there are a range of other proposals that seek to both reduce Council costs and increase the income generating capacity of the Council itself, so that the Council is well positioned to meet its future savings requirements of £12m for the period 2018/19 to 2020/21.
- 1.9 To deliver these necessary schemes and to provide funding for the Council's Capital Expenditure commitments through a Revenue Contribution to Capital, the Administration proposes to implement early, the Council's strategy to take a "Debt Repayment Holiday" (originally planned for 2017/18) amounting to £3.1m. The Administration considers that this is the best way of utilising capital resources in accordance with the Council's Capital Strategy and Medium Term Financial Strategy.
- 1.10 The Council has the opportunity through its capital programme and borrowing powers to invest in both the regeneration of the City and cost reduction schemes for the Council itself. Capital investment needs and aspirations however continue to significantly exceed the resources available. Importantly, there are likely to be opportunities throughout the year to lever in additional external capital funding for schemes that have strong potential to be catalytic for economic growth but only if, the Council itself can provide matched funding contributions. As a consequence, to maximise the Capital Investment opportunities for the City, the "Budget & Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21" report, elsewhere on this agenda, proposes that any further underspending, that arises at year end will also be used to supplement the Capital Resources available for 2017/18 and future years.

² Assuming further contributions from the Council were made available in future periods of £0-5.0m

2. Purpose

2.1 The purpose of this report is to:

- Summarise the key features of the Capital Strategy approved by the City Council on 4th February 2009 and the revised Capital Investment Priorities of the City Council, approved by City Council on 24th January 2012
- Highlight the inter-relationship between the capital programme, the revenue budget and the Medium Term Financial Strategy
- Determine the corporate capital resources available including:
 - Adjustments for under and overspendings to the existing approved Capital Programme
 - Update the capital resources available for all new and changed grants, capital receipts, revenue contributions and other contributions
 - The identification of any additional assets which the Administration wishes to declare surplus to requirements
- Seek approval of the overall Capital Programme and "new starts" (including the Housing Investment Capital Programme) for 2016/17 and future years in accordance with the Capital Strategy
- Describe and approve the Prudential Indicators arising from the revised Capital Programme 2016/17 to 2021/22
- Delegate authority to the S.151 Officer to alter the mix of capital funding to make best use of City Council resources

3. Recommendations

3.1 That the following be approved in respect of the Council's Capital Programme:

- 1) The Revised Capital Programme 2016/17 to 2021/22 attached as Appendix 1 which includes all additions, deletions and amendments for slippage and re-phasing described in Sections 6 and 8 be approved
- 2) The S.151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council
- 3) That the S.151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and also for any match funding requirements that may be required of the City Council in order to secure additional external capital

funding (e.g. bids for funding from Government or the Solent Local Enterprise Partnership)

- 4) The following schemes as described in Section 9 and Appendix 2 be reflected within the recommended Capital Programme 2016/17 to 2021/22 and be financed from the available corporate capital resources:

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
Education			
	Sufficiency of Secondary School Places	2,670,000	4,470,000
	Future Secondary School Places	1,000,000	1,000,000
	School Condition Projects	1,000,000	1,100,000
Children's Safeguarding			
	Children's Case Management Software Replacement	1,907,000	1,907,000
	Tangier Road Children's Home	495,000	495,000
	Beechside Children's Home	55,000	55,000
Culture, Leisure & Sport			
	Kings Bastion	525,000	600,000
	Charles Dickens' Gardens	25,000	25,000
	D Day Museum	165,000	165,000
	Contribution Towards Resurfacing South Parade Pier	50,000	75,000
	Installation of Shower Facilities at Canoe Lake	10,000	10,000
	Watersedge Park Building	20,000	20,000
	Edwardian Seafront Shelter	70,000	80,000
	Re-provision of Bandstand at West Battery Gardens	40,000	40,000
	Pop Up Kiosks - Southsea Seafront	40,000	40,000
Environment & Community Safety			
	Household Waste Collections	111,200	111,200
	Old Portsmouth Seawalls' Maintenance	120,000	120,000
	Southsea Sea Defences	1,250,000	88,602,400
Health & Social Care			
	Swift Software Replacement	400,000	1,163,000
Housing			
	Phase 1: Refresh of the Allaway Avenue Green and Surrounding Planting	16,600	16,600
	Hillside Youth & Community Centre - Outdoor Play	166,000	166,000
PRED			
	City Centre Road	3,000,000	45,000,000
	Renovation of Victoria Park Lodge	100,000	100,000
	Public Realm Improvements - Chaucer House	594,000	594,000
	Portsmouth Area Rape Crisis Service - Building Maintenance	50,000	50,000
Resources			
	Landlord's Maintenance	591,000	831,000
Traffic & Transportation			
	Seafront Variable Message Signs	52,000	75,800

Recommended New Capital Schemes		Corporate Resources Required £	Total Scheme Value £
	Eastern Corridor Road Link Improvements	500,000	500,000
	Improvements to Neighbourhood Living & Street Environment	200,000	200,000
	Local Transport Plan	1,200,000	1,200,000
	Old Portsmouth Area Study	40,000	40,000
Total Recommended Sum To Be Approved		16,462,800	148,852,000

- 5) The following schemes as described in Section 10 and Appendix 2 be approved as Invest To Save Schemes and funded from Prudential Borrowing (subject to the approval of a detailed financial appraisal by the S.151 Officer) up to the limit shown:

	Prudential Borrowing Required £
Utilities and Energy Management	1,031,100
Investment in Solar Photovoltaic Cells	3,400,000
Total Recommended Sum to be Approved	4,431,100

- 6) The following Schemes as described in Section 15 be included within the "Reserve List" of Capital Schemes to be considered once additional capital resources are identified

Future Priority Capital Schemes – Not in Priority Order
Secondary School Places 2019/20 to 2021/22
Special Educational Needs Re-modelling
School Condition (roofs, boilers, electrics, windows etc.)
Sea Defences Contribution to £89m Scheme
Enabling Transport Infrastructure match funding - City development
Landlords Repairs & Maintenance
Local Transport Plan - Road safety and traffic improvement schemes

- 7) The Prudential Indicators described in Section 16 and set out in Appendix 3 be approved.

3.2 That the following be noted in respect of the Council's Capital Programme:

- 1) That the capital resources proposed to be allocated include £3.5m of funding from Revenue as recommended in the "Budget and Council Tax 2017/18 & Medium Term Budget Forecast 2018/19 to 2020/21" report contained elsewhere on this agenda. In the event that this funding is not approved, schemes with Corporate Capital Resources amounting to £3.5m will be required to be removed from the new schemes starting in 2017/18 detailed in Appendix 2

- 2) The passported Capital Allocations (Ring-fenced Grants) as set out in Section 7
- 3) As outlined in Section 12 and Appendix 2, the use of The Parking Reserve to fund the refurbishment of lifts at Isambard Brunel Car Park at a cost of £240,000; and a contribution of £23,800 towards the cost of installing Variable Message Signs along Southsea Seafront
- 4) As outlined in Section 13 and Appendix 2, the release of £70,000 from the Culture, Leisure & Sport Portfolio Reserve to fund:
 - a. the relocation of the café and children's play area within Southsea Library and
 - b. the replacement of the automatic main entrance door at Southsea Library
- 5) As outlined in Section 14 and Appendix 2 the use of The Prevention (Public Health) Reserve to fund enhanced Assistive Technology to residents with an Adult Social Care need at a total cost of £300,000
- 6) The City Council note that Prudential Borrowing can only be used as a source of capital finance for Invest to Save Schemes as described in Section 16

4. Background

- 4.1 On the 4th February 2009 the City Council approved the Capital Strategy 2008 - 2018. The key features of that strategy, which have been considered in the development of the Administration's Capital Programme proposals, are as follows:
 - Contribution to the Corporate Plan & Vision for Portsmouth for non-commercial activities (Replaced by "Plan on a Page")
 - Rate of return and payback for commercial activities
 - Retention of Community Assets
 - Retention and maintenance of Heritage Assets
 - The extent and level of surety of external funding
 - The use of Capital Investment Options Appraisal
 - A whole life cost approach to Capital Investment
 - Delivery of Value for Money
 - The approach to risk - the expected benefits must outweigh the risk
 - Any overspendings on approved Capital Schemes being the first consideration for the use of any available capital resources
- 4.2 On 24th January 2012 the City Council approved the "Capital Investment Aspirations and Priorities 2011/12 and the Future". This update report to the Capital Strategy 2008 – 2018 revised the Capital Investment Priorities, as the Capital Strategy was in its 3rd year, and proposed the following categories of Capital Schemes that are the priorities for attracting Corporate Capital Funding:

- **Category 1** - Programmes of a recurring nature that are essential to maintain operational effectiveness

- **Category 2** - Specific schemes that:
 - Have a significant catalytic potential to unlock the regeneration of the City
 - Are significant in terms of the Council strategies that they serve
 - Are significantly efficiency generating
 - If not implemented would cause severe disruption to Service delivery

4.3 The Capital Programme fully embraces the revised financial framework for allocating capital resources to new capital schemes. The financial framework approved within the Capital Strategy has evolved from the previous framework based on passporting of funding, to one that is based on pooling resources designed to offer Members greater choice and transparency with the overall aim of delivering better outcomes from the resources available. It seeks to strike the correct balance of allocating capital resources between short and medium term needs and priorities and longer term aspirations, in order to support the delivery of the long term Capital Strategy.

4.4 The Administration have focussed a significant proportion of their available Capital Resources towards improving the condition of school buildings and increasing the number of pupil places within secondary schools to meet forecast increases in demand.

4.5 The next large physical regeneration projects planned by the City Council over the next 5 - 10 years are the seafront development and improvements to transport infrastructure to enable city development and growth. The seafront development includes improvement of sea defences and key sites identified in the Seafront Master Plan. Consistent with this plan, the Council expects to be awarded £77m by The Environment Agency to complete improvements to the sea defences along Southsea Seafront. In anticipation of this grant award, the Administration allocated £1.25m match funding in 2016/17 and plans to allocate a further £1.25m match funding in 2017/18. To unlock the economic potential of the City, the Administration proposes to increase firm City Council contributions by £3m towards a circa £45m³ project for an upgraded City Centre access road. This scheme will ensure that all forms of transport can flow freely in and out of the City Centre in a way that accommodates future growth, enabling residents, tourists and businesses to access the city with ease and facilitating 2,600 additional homes and 9,700 permanent jobs. This will increase the contribution made available by the City Council to £15m in total.

4.6 Other regeneration schemes in the pipeline include housing and employment space developments at Port Solent, Tipner and Horsea under the City Deal Programme and the development of a Business Park at Dunsbury Hill Farm.

³ Assuming further contributions from the Council were made available in future periods of £0-5.0m

4.7 There remain significant future capital obligations and aspirations. These include schemes such as the following where funding has yet to be identified to meet them in full but which will likely require funding in the short or medium term:

Capital Scheme - Significant Obligation / Aspiration	Unfunded Requirement £m
Secondary School Places 2019/20 to 2021/22	9.0 - 11.0
Special Educational Needs Re-modelling	4.0 - 5.0
School Condition (roofs, boilers, electrics, windows etc.)	2.0 - 3.0
Sea Defences Contribution to £89m Scheme	4.8 -10.5
Enabling Transport Infrastructure match funding - City development (next 5-10 years)	0 - 5.0
Landlords Repairs & Maintenance	1.0 - 2.0
Local Transport Plan - Road safety and traffic improvement schemes	1.5 -2.0
Total Funding Requirement	22.3 - 38.5

4.8 The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital grant funding, capital receipts and CIL contributions that the Council receives (circa £10m per annum) plus any Government funding which may be available for school places. With potentially available capital funding of £10m versus core obligations and aspirations of between £22m to £39m of Capital Investment, there is a hugely significant shortfall to be met.

4.9 Given that some of this Capital investment is likely to have a transformational effect on the City's growth, there is a recommendation elsewhere on this agenda to transfer any further underspending in 2016/17 arising at the year-end (outside of those made by Portfolios) to Capital Resources in order to provide funding for essential Capital Investment into Secondary School Places, Sea Defences and the enabling transport infrastructure necessary for the City's development and growth.

5. Considerations in Formulating the Revised & Future Capital Programme

5.1 In considering the revised Capital Programme for 2016/17 and the future Capital Programme for 2017/18 to 2021/22, the following factors have been taken into account:

- The Medium Term Financial Strategy with its bias towards entrepreneurial activities and driving regeneration
- The Council's Capital Strategy, which informs the capital investment needs, priorities and aspirations of the Council
- Any over or underspending against approved capital schemes
- The priority and immediacy of new capital schemes and the revenue impacts of those capital schemes

- The availability of capital resources and the potential risks associated with those capital resources being realised
- The inter-relationship with the Revenue Budget, in particular the additional revenue costs/savings associated with the proposed new capital schemes
- The effective exclusion of the use of Prudential Borrowing, except for Invest to Save Schemes, arising from the unaffordability of its associated borrowing costs

5.2 To determine the capital resources available, all capital funding sources have been reviewed. This review covered all of the resources anticipated to be available over the medium term. In assessing the level of anticipated capital resources available, a prudent and responsible approach has been taken and only those resources that have a high degree of certainty and that are likely to be available within a reasonable time frame have been included.

5.3 In determining the capital resources available, a small amount has been retained as a contingency to: mitigate the risk of capital receipts; Community Infrastructure Levy and Government Grants being lower than expected; to meet unavoidable increases in costs to approved schemes; as a source of finance to attract match funding from external capital grants that may become available, and as a funding source for small scale capital schemes that arise after the capital programme has been approved.

6. Revised Capital Programme – 2016/17 to 2021/22

6.1 Since the revised Capital Programme 2015/16 to 2020/21 was approved in February 2016, other schemes that have not required corporate capital resources have been added to the recommended Capital Programme shown in Appendix 1. These schemes have been funded from sources such as Specific Grants, Contributions or other scheme specific capital resources.

6.2 The Capital Programme approved in February 2016 (incorporating the Housing Investment Programme) has been further revised to reflect additions, changes, under and overspendings, slippage and revised phasing of capital schemes. Further details of these changes are set out in Section 8. The revised capital programme for 2016/17 and beyond is attached at Appendix 1 and is recommended for approval.

7. Passported Capital Allocations (Grants)

7.1 Set out below is the current position on all new ring-fenced Grant Allocations for 2016/17. The allocation is passported directly to the relevant Portfolio/Board so that they can be applied in accordance with the conditions for their use.

Grant	Grant Description	Allocation £
Children's & Education Services:		
Devolved Formula	Devolved Formula Capital Grant (DFCG) is a grant that allocates capital funding to schools. The grant is used to fund capital improvements/maintenance, remodelling and/or new build. (announcement of 2017/18 is awaited)	£384,900
Health & Wellbeing Board:		
Disabled Facilities Grant	To be allocated in accordance with the arrangements for the distribution of the Better Care Fund (announcement of 2017/18 is awaited)	£1,403,600
Total		1,788,500

8. Forecast of Corporate Capital Resources (Non Passported) 2017/18 & Beyond

8.1 The forecast of corporate capital resources (i.e. non passported sources of finance) available to the City Council for new capital schemes comprise the following and are described in more detail in the paragraphs below:

- Contributions to the "Corporate Pool" of all non ring-fenced capital grants from Government, commonly referred to as the "Single Capital Pot" allocations
- The anticipated balance on the Revenue Reserve for Capital
- Changes to the existing Capital Programme - additions or deductions for any changes in the costs or funding requirements associated with the existing capital programme
- Any allowances for Prudential Borrowing (unsupported borrowing)
- The forecast value of additional capital receipts taking into account:
 - New assets declared surplus to requirements
 - Any increase or decrease in the estimated value of existing assets to be disposed of
 - Any requirements to provide for affordable housing, parking or any other conditions which could have a significant impact on the disposal value and other costs associated with disposal
- Other Corporate Capital Grants & Contributions e.g. Community Infrastructure Levy

- Any Revenue Contributions to Capital

Contributions to the Corporate Pool including the “Single Capital Pot” allocations

- 8.2 The Council receives allocations of capital funding each year under the guise of the “Single Capital Pot”. The “Single Capital Pot” is not a grant or capital allocation in itself but is a term used to define all non ring-fenced Government Grants.
- 8.3 The Single Capital Pot is intended to be a non ring-fenced source of finance and available for directing towards the priorities of the Authority. In practice however, the Single Capital Pot allocations are notified to individual Authorities in terms of the amounts that each Government Department has contributed. Furthermore, those Government Departments have an expectation that the amounts that they have allocated to each Authority will be directed towards their services. If these sums are not spent in the areas to which they are allocated, it is possible that future allocations could be jeopardised. This practice is contradictory to the principles of both the Single Capital Pot and the Council’s Capital Strategy that is now in place.
- 8.4 In addition, there are other non ring-fenced sources of capital funding that are Corporately Pooled such as:
- Capital Receipts from the Sale of Council Houses
 - Capital Receipts from the Sale of other HRA Assets
- 8.5 The allocations which were previously passported directly to Portfolios and which now contribute towards the “Corporate Pool” as part of the overall sum of Capital Resources available are as follows:

Contributions to Corporately Pooled Resources		Full Year Grant Allocation	Grant Allocated in Previous Years	Available Resources To Be Pooled
		£'000s	£'000s	£'000s
Culture, Leisure & Sport				
S106 (Open Spaces)				29
Education				
LA Basic Need	2017/18	6,418	(6,418)	0
	2018/19	2,508	(2,508)	0
DfE Capital Maintenance	2016/17	1,664	(1,443)	221
	2017/18	1,331	0	1,331
Housing				
S106 (Housing)				44
Housing Capital Receipts				168
Traffic & Transportation				
S106 (Sustainable Transport)				43
LTP IT Block	2017/18	1,851	0	1,851
National Productivity & Investment Fund		552	0	552

Contributions to Corporately Pooled Resources	Full Year Grant Allocation	Grant Allocated in Previous Years	Available Resources To Be Pooled
	£'000s	£'000s	£'000s
Community Infrastructure Levy (CIL)			3,147
City Wide CIL			594
Total Contributions to Corporate Pool			7,980

8.6 It should be noted that:

- the maintenance element of the Local Transport Plan (LTP) and the allocation from the Pothole Action Fund have not been pooled and are earmarked to fund part of the Unitary Charge paid to Ensign under the Highways PFI contract. This amounts to £1.272m and £0.111m respectively in 2017/18.
- Detailed feasibility and design of schemes aimed at increasing the number of school places commencing in 2019/20 are currently being prepared. Based on the limited work undertaken to date, the combined cost of these schemes is expected to be circa £9m - £11m. Bearing in mind the magnitude of the expected cost there is a significant risk that future LA Basic Need grant allocations from Government will not be sufficient to fund the full cost of the school places expansion. The Administration has therefore considered it prudent to allocate £1.0m towards the cost of these schemes now from currently available pooled resources

Revenue Reserve for Capital & Revenue Contributions to Capital

8.7 The Revenue Reserve for Capital has been built up over a number of years from Revenue Contributions to finance capital schemes and as at 31st March 2016 stood at £17.8m. Sums are transferred into this reserve in advance and then drawn from the reserve once the capital expenditure is incurred.

8.8 The balance on the Revenue Reserve for Capital and Revenue Contributions from/to this reserve have been taken into account in arriving at the overall level of capital resources available.

Changes to the Existing Capital Programme

8.9 In arriving at the overall level of capital resources available, the current approved Capital Programme has been reviewed and amended, in accordance with the approved Capital Strategy, for under and overspending plus any adjustments for additions to or shortfalls in estimated funding. These adjustments are reflected in the proposed Capital Programme at Appendix 1. The more significant amendments to the existing Capital Programme are set out below:

Underspendings:

- Cosham High Street
- Lighting for the Square Tower
- Grants to Registered Social Landlords

Overspendings / Funding Shortfalls:

- Universal Infant Free School Meals

In Year Additions:

- Civic Offices' Basement Refurbishment
- Investment Properties (Leasehold Disposal of White Hart Road)
- Sports & Leisure Facilities Investment
- Butterfly House at Cumberland House
- Portsmouth Recovery Centre
- Port Leased Plant & Equipment
- EBS Hardware & Configuration
- In-house Parks' Mobilisation - Vehicles & Equipment
- Replacement Homes (HRA)

8.10 The funding required to finance the overall recommended Capital Programme attached at Appendix 1 plus the changes described in this Section and Sections 6 and 7 have been fully taken into account in arriving at the capital resources available.

Prudential Borrowing

8.11 Prudential Borrowing is what is termed “unsupported borrowing” and means that the Government does not provide any revenue support through Government Grant for the repayment of that debt (neither principal nor interest). The City Council therefore, must fund all of the repayments associated with this type of borrowing. There are strict rules governing the use of Prudential Borrowing around the concepts of Affordability, Sustainability and Prudence. Thus far, the City Council has only been able to utilise Prudential Borrowing for Invest to Save Schemes where there is a demonstrable case that the capital expenditure incurred will result in savings that at least cover either the cost of borrowing or, alternatively, where other savings can be made to cover those borrowing costs.

Capital Receipts

8.12 In forecasting the level of Capital Resources available to the City Council over the medium term, the following core assumptions have been made:

- Capital receipts have only been assumed for the disposal of assets that have been approved by Members
- Capital receipts are only assumed where they are expected to be realised within a reasonable timeframe since there are inherent risks associated with changing circumstances over longer time periods

- Some of the more significant capital receipts being relied upon to fund the current capital programme include:
 - Chaucer House
 - Great Western
 - Navigators
 - Archive Store
 - Harbour School Fratton
 - Rodney Road Site
- Revisions to reflect the current financial conditions in the property market

Corporate (Non ring-fenced Capital Grants)

8.13 The Capital Programme also relies upon other non ring fenced Capital Grants

Summary of Total Available Capital Resources

8.14 Taking all of the above factors into account, as well as making some contingency provision for contractual disputes, likely match funding contributions for funding bids and other potential costs, the Capital Resources available at this time are as follows:

CORPORATE CAPITAL RESOURCES AVAILABLE	£'000s
Corporate Capital Resources (including "Pooled Resources")	£16,463
Add: Funds Released from Uncommitted Schemes	Nil
Total Corporate Capital Resources Available	£16,463

9. Priority Capital Schemes – 2017/18 & Beyond (Corporate Resources)

9.1 The programme has been specifically designed to support educational attainment by investing £6.6m into school buildings. This will provide sufficient school places for the rising population and also meet the most critical repairs across the school estate, targeting those resources towards schools with the most acute needs for new places and repair works.

9.2 The Administration also plan to support the economic growth of the City by; improving the attractiveness of the area around Isambard Brunel Road; progressing the detailed design of sea defences at Southsea in order to protect the City's seafront assets and; a contribution towards a project for an upgraded City Centre access road that will unlock the economic potential of the City.

9.3 Significant investment also continues to be made into other core services such as transportation, including proposals for improvements to the Eastern Corridor Road Link, enhancements to the neighbourhood living and street environments

and installation of variable message signs along Southsea Seafront that will enhance the City's attractiveness to businesses and residents alike.

9.4 At this time, the Administration is recommending the allocation of £16.46m to the following capital schemes, which it deems to be of particular importance to the delivery of its Capital Strategy:

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority (Corporate Plan) Or Long Term Aspiration (Portsmouth Vision)	Corporate Resources Required £	Total Scheme Value £
Sufficiency of Secondary School Places	Category 1 - short / Medium Term Need & Priority - Raise Standards in English & Maths through maintenance and enhancement of the learning environment. Ensuring that buildings are in the right condition and are suitable for learning needs	2,670,000	4,470,000
Future Secondary School Places	Category 1 - short / Medium Term Need & Priority - Raise Standards in English & Maths through maintenance and enhancement of the learning environment. Ensuring that buildings are in the right condition and are suitable for learning needs	1,000,000	1,000,000
School Condition Projects	Category 1 - short / Medium Term Need & Priority - Raise Standards in English & Maths through maintenance and enhancement of the learning environment. Ensuring that buildings are in the right condition and are suitable for learning needs	1,000,000	1,100,000
Children's Case Management Software Replacement	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by ensuring "back office" infrastructure is suitable for purpose and avoids severe disruption to Service delivery	1,907,000	1,907,000
Tangier Road Children's Home	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	495,000	495,000
Beechside Children's Home	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	55,000	55,000
Kings Bastion	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	525,000	600,000
Charles Dickens' Gardens	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	25,000	25,000
D Day Museum Repairs	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	165,000	165,000
Contribution Towards Resurfacing South Parade Pier	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	50,000	75,000
Installation of Shower at Canoe Lake	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	10,000	10,000
Watersedge Park Building	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	20,000	20,000
Edwardian Seafront Shelter	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	70,000	80,000
Re-provision of Bandstand at West Battery Gardens	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	40,000	40,000
Pop Up Kiosks - Southsea Seafront	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	40,000	40,000
Household Waste Collections	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by improved efficiency	111,200	111,200
Old Portsmouth Seawalls' Maintenance	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	120,000	120,000

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority (Corporate Plan) Or Long Term Aspiration (Portsmouth Vision)	Corporate Resources Required £	Total Scheme Value £
Southsea Coastal Flood Defence Contribution	Category 2 - short / Medium Term Need & Priority - Regenerate the City by improving facilities, encouraging tourism and investment	1,250,000	88,602,400
Swift Software Replacement	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by ensuring "back office" infrastructure is suitable for purpose and avoids severe disruption to Service delivery	400,000	1,163,000
Phase 1: Refresh of the Allaway Avenue Green and Surrounding Planting	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	16,600	16,600
Hillside Youth & Community Centre - Outdoor Play	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	166,000	166,000
City Centre Road	Category 2 - Long Term Need & Priority - Regenerate the City by providing an attractive place for business to settle	3,000,000	45,000,000
Renovation of Victoria Park Lodge	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	100,000	100,000
Public Realm Improvements - Chaucer House	Category 2 - Long Term Need & Priority - Regenerate the City by providing an attractive place for business to settle	594,000	594,000
Portsmouth Area Rape Crisis Service - Building Maintenance	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	50,000	50,000
Landlord's Maintenance	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	591,000	831,000
Seafront Variable Message Signs	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	52,000	75,800
Eastern Corridor Road Link Improvements	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	500,000	500,000
Improvements to Neighbourhood Living & Street Environment	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	200,000	200,000
Local Transport Plan	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	1,200,000	1,200,000
Old Portsmouth Area Study	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities via the comprehensive management of the asset base and provide buildings for all services that are in the right place, condition and are suitable for their purpose	40,000	40,000
Total Corporate Capital Resources Allocated		16,462,800	148,852,000

9.5 The proposed Capital Schemes recommended for approval are described in more detail in Appendix 2 and set out:

- Description of the Scheme and its key aims
- The total cost of the scheme including funding from other sources
- The net cost of the scheme to be funded from Corporate Capital Resources

- Any additional on-going revenue costs/savings associated with the scheme

10. New Capital Schemes To Be Funded From Prudential Borrowing

- 10.1 To significantly reduce the Council's Carbon Footprint and reduce energy costs, major investment in photovoltaic technology is planned alongside further investment in other energy management schemes.
- 10.2 These schemes meet the Prudential Borrowing Criteria outlined at Paragraph 8.11 and it is recommended that prudential borrowing up to the limit shown for each scheme below (and set out in more detail in Appendix 2) is approved:

Capital Scheme	Capital Strategy Short / Medium Term Need & Priority (Corporate Plan) Or Long Term Aspiration (Portsmouth Vision)	Corporate Resources Required £	Total Scheme Value £
Utilities and Energy Management	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by improved efficiency	1,031,100	1,031,100
Investment in Solar Photovoltaic cells	Category 1 - Short / Medium Term Need & Priority - Contributes to multiple priorities by improved efficiency	3,400,000	3,400,000
Total Capital Schemes To Be Funded From Prudential Borrowing		4,431,100	4,431,100

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

- 11.1 No new capital schemes have been added which require funding from the MTRS Reserve.

12. New Capital Schemes To Be Funded From The Parking Reserve

- 12.1 City Council note the use of the Parking Reserve to fund the following schemes:

Isambard Brunel Car Park Lift Refurbishment

It is proposed that 2 lifts are refurbished at a cost of £240,000 as set out in more detail in Appendix 2.

Seafront Variable Message Signs

It is proposed that the Parking Reserve is used to fund £23,800 of a £75,800 scheme to install Variable Message Signs along Southsea Seafront as set out in more detail in Appendix 2.

13. New Capital Schemes To Be Funded From Portfolio Reserve

- 13.1 City Council note the use of the Culture, Leisure & Sport Portfolio Reserve to fund the following schemes:

Southsea Library Café and Children's Play Area

It is proposed that the café and children's play area are re-located within the Library at a cost of £60,000

Southsea Library Automatic Entrance Doors

It is proposed that the automatic main entrance doors are replaced at a cost of £10,000

These schemes, totalling £70,000 are set out in more detail in Appendix 2.

14. New Capital Schemes To Be Funded From Prevention (Public Health) Reserve

Assistive Technology

A scheme to provide enhanced Assistive Technology to residents with an Adult Social Care need is proposed at a cost of £300,000 as set out in more detail in Appendix 2

15. Future Priority Capital Schemes

- 15.1 In addition to the Capital Investment proposals described above, the Administration is keen to plan a path ahead in accordance with the Capital Strategy and set out their future proposals for Capital Investment once further Capital Resources become available. The Administration's proposals are set out below.

Future Priority Capital Schemes – Not in Priority Order
Secondary School Places 2019/20 to 2021/22
Special Educational Needs Re-modelling
School Condition (roofs, boilers, electrics, windows etc.)
Sea Defences Contribution to £89m Scheme
Enabling Transport Infrastructure match funding - City development
Landlords Repairs & Maintenance
Local Transport Plan - Road safety and traffic improvement schemes

16. Prudential Borrowing and Prudential Indicators

- 16.1 Prudential Borrowing is a potential source of capital finance under the Local Government Act 2003. This requires that Local Authorities comply with the Prudential Code for Capital Finance. The key objective of the Prudential Code is to ensure that the capital investment plans of local authorities are Affordable, Prudent and Sustainable. The Prudential Code sets out a clear governance procedure for those matters that the Authority must have regard to as follows:

- **Affordability** e.g. implications for Council Tax and Council housing rents
- **Prudence and Sustainability** e.g. implications of external borrowing
- **Value for money** e.g. options appraisal
- **Stewardship of assets** e.g. asset management planning
- **Service objectives** e.g. strategic planning for the authority
- **Practicality** e.g. achievability of the forward plan

- 16.2 Prudential Borrowing requires that the capital investment of the Authority remains within sustainable limits and that the revenue consequences, including both debt financing and other revenue costs, are affordable over the long term. In considering the affordability of its Capital plans, the Authority must consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years as a minimum. The Authority is also required to consider known significant variations beyond this timeframe and pay due regard to risk and uncertainty.
- 16.3 Whilst the City Council is able to set a balanced budget in 2017/18 current forecast revenue deficits amount to £3.9m in 2018/19, £8.9m in 2019/20 and £11.4m in 2020/21. This means that until such time as the Council is able to balance its budget over the medium term, it is unable to demonstrate that it can afford any additional borrowing costs over that period and therefore cannot demonstrate compliance with the affordability test of the Prudential Code. Prudential Borrowing is available however, for Invest to Save Schemes.
- 16.4 The Secretary of State has reserve powers to impose regulations on Local Authorities if it feels that an Authority is either not compliant with the code or if it is in the national economic interest. These reserve powers include:
- National Borrowing Limits – if there are national economic reasons
 - Borrowing Limits for an individual Authority
 - Limits set either nationally or locally for different kinds of borrowing
 - Any headroom that a Local Authority has under National Borrowing Limits that may be transferred between Authorities
- 16.5 The Prudential Indicators of the Council are determined largely from its Capital Investment decisions and are presented in Appendix 3. In summary, the Council's indicators illustrate that its current Capital Programme is affordable. The ratio of financing costs to net revenue stream for the General Fund are estimated to be 11.0% in 2016/17, rising to 13.0% by 2021/22. For the Housing Revenue Account, fixed borrowing costs range from 12.0% in 2016/17, peaking at 13.1% in 2018/19 before falling back to 12.3% by 2021/22. The forecast HRA balance for the next 5 years remains in surplus indicating that this is a sustainable level of borrowing.
- 16.6 Represented in terms of the effect on a Band D taxpayer, the revenue effect (i.e. additional costs/savings against the revenue budget) of the recommended capital programme is equivalent to a reduction of £2.43 per annum per taxpayer in 2018/19 or equivalent to a 0.19% decrease in the Council Tax.
- 16.7 The Council's underlying need to borrow to finance its current and future capital expenditure (i.e. its Capital Financing Requirement) is increasing, primarily as a result of planned commercial property investments but will ultimately reduce as these investments are sold. The Council's 2016/17 revised Operational Boundary is £599.5m and is forecast to decrease to £570.9m over the period to 2021/22.

16.8 The Council's Limit for External Debt, recommended for 2017/18, should be broadly equivalent to its underlying need to borrow (described above) but should allow for a little headroom in excess of it. This has been set accordingly. Furthermore, the Operational Boundary for external debt serves as a limit/early warning tool to highlight whether the External Limit is nearing a breach. This therefore, is set at the level to which external debt is more likely to be.

17. Conclusion

17.1 The Capital Programme and new capital schemes recommended as part of this report attempt to strike the right balance between meeting the short and medium term needs and priorities of the Council and the longer term aspirational vision for the City.

17.2 In particular, the proposals seek to meet the Council's statutory obligations to provide sufficient school places and to support schools in their pursuit of improved educational attainment. As a whole, the Capital Programme is designed to drive economic growth, support schools in their pursuit of improved educational attainment, generate savings and income for the Council in order to protect services from cuts and continue to protect the vulnerable in society. The programme is clearly aligned with the Medium Term Financial Strategy and the approved Capital Strategy.

17.3 This programme sets out the future Capital Investment agenda for the Council. It looks beyond the coming year and uses a financial framework for allocating capital resources based on the concept of pooling non-ring fenced resources so that there is greater transparency and choice for new capital investment with greater opportunity for enhanced outcomes for residents.

18. Equality Impact Assessment

18.1 This Capital Programme earmarks sums for future capital schemes. Prior to the commencement of any capital scheme, a report and financial appraisal on that scheme will be approved either by the Portfolio Holder, the Cabinet or the City Council and at that time an Equalities Impact Assessment will be undertaken.

19. City Solicitor's Comments

19.1 The City Solicitor has confirmed that it is within the City Council's powers to approve the recommendations set out above.

20. S.151 Officer's Comments

20.1 All of the financial information is reflected in the body of the report and the Appendices.

Chris Ward

Director of Finance and Information Service & Section 151 Officer

Background List of documents –

Section 100D of the Local Government Act 1972

The following documents disclose facts or matters which have been relied upon to a material extent by the author in preparing this report –

<i>Title of document</i>	<i>Location</i>
Capital 2017/18	Office of Deputy Director of Finance
Capital Strategy 2008 – 2018	Council's Web Site
Capital Investment Aspirations & Priorities 2011/12 and the Future	Council's Web Site

The recommendations set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 14th February 2017

Signed:

**CAPITAL
PROGRAMME
&
FINANCING**

2016/17 - 2021/22