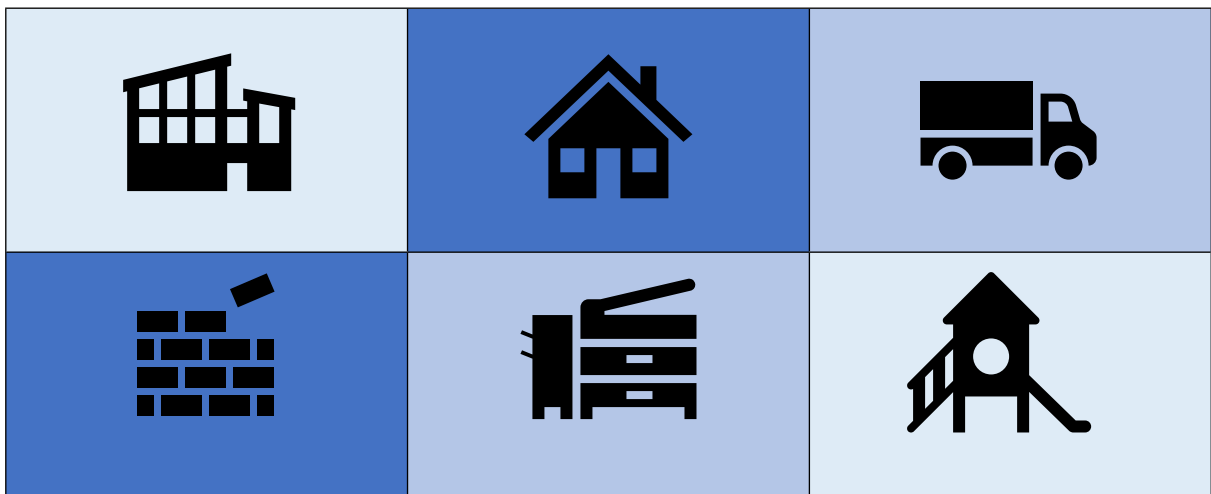


FAREHAM

BOROUGH COUNCIL

CAPITAL STRATEGY

2025/26



CONTENTS

INTRODUCTION	3
SUMMARY OF CAPITAL PROGRAMME	8
CAPITAL SCHEMES	11
ASSET MANAGEMENT	17
CAPITAL FINANCING	21
TREASURY MANAGEMENT	28

Annex 1 – Capital Programme 2024/25 to 2028/29

Annex 2 - New Capital Schemes Approved since the last Capital Strategy

INTRODUCTION

WHAT IS THE CAPITAL STRATEGY?

1. Capital expenditure is where the Council spends money on assets, which will be used for more than one year. In local government this also includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. Capital schemes are distinct projects such as property construction or renovation, as compared to the ongoing asset management and replacement programmes.
2. The Capital Strategy has been developed to meet the requirements of the CIPFA Prudential Code.
3. It gives a high-level overview of how **capital expenditure, capital financing, asset management and treasury management** activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
4. It includes the details of the Council's Capital Programme for a 5-year period covering both Capital Schemes and Asset Management needs.
5. Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future.
6. The Capital Strategy covers:

Capital Programme	<ul style="list-style-type: none">• Summary of Capital Expenditure• Major Capital Schemes• New Schemes
Capital Schemes	<ul style="list-style-type: none">• New Housing Schemes• Town Centre Regeneration• Solent Airport and Daedalus• Climate Change and Nutrient Mitigation
Asset Management	<ul style="list-style-type: none">• Future Funding Requirements• Asset Disposals• Replacement and Improvement Programmes
Capital Financing	<ul style="list-style-type: none">• Funding Sources• Financing Plan for Capital Programme• Pressures and Risks• Debt, MRP and CFR
Treasury Management	<ul style="list-style-type: none">• Borrowing Strategy• Investment Strategy• Commercial Activities• Revenue Budget Implications

7. The capital strategy complements other Council strategies, including those in the diagram below:



PRUDENTIAL INDICATORS

8. The objectives of the CIPFA Prudential Code aim to ensure that capital investment plans are **affordable, prudent and sustainable**, and that treasury decisions are taken in accordance with good professional practice.
9. To achieve these objectives, five prudential indicators are included in the capital strategy:
- Prudential Indicator 1 - Estimates of capital expenditure and financing
 - Prudential Indicator 2 - The Council's borrowing need
 - Prudential Indicator 3 - Gross debt and the capital financing requirement
 - Prudential Indicator 4 - Limits to borrowing activity
 - Prudential Indicator 5 - Net income from commercial investments to net revenue stream
 - Prudential Indicator 6 - Proportion of financing costs to net revenue stream

GOVERNANCE, POLICY AND PRIORITIES

10. Capital programme expenditure is monitored through monthly officer monitoring reports and half-yearly and annual outturn reports to the Executive.
11. All new potential capital schemes will only be considered if they make a clear contribution to the Council's objectives and priority actions or support the Council's Asset Management Plan.
12. The following factors need to be considered before a decision is made to include a new scheme in the capital programme:

- On-going operational costs associated with the scheme;
 - Whole life costing implications of the scheme;
 - Cost of servicing the debt if the scheme is financed by borrowing;
 - Loss of investment interest if internal resources are used.
13. Where new capital schemes are included in the capital programme there will be a need to ensure that the necessary resources are in place to meet the full capital costs and the on-going revenue costs.
 14. A new policy of capitalising officer salary costs that are directly attributable to capital schemes will now be considered as part of the total project costs. In addition, up to 4% of new capital receipts received, other than from housing, will be used to meet the costs of enabling land disposals, this is allowable under capital accounting regulations.
 15. Efforts will be made to secure external (non-borrowing) sources of funding capital schemes. Internal capital resources will only be released to fund schemes once external sources of funding (such as developers' contributions, grants, etc.) have been explored and rejected.
 16. Capital schemes will normally be financed by use of capital reserves or external contributions. Borrowing will only be considered where there is a sound economic business case (e.g. for spend to save schemes) whereby borrowing costs are wholly offset by long term net revenue income or savings.
 17. Resources allocated to particular capital projects but subsequently not required are returned to meet future corporate priorities rather than be retained for use by that service.
 18. To ensure the Council is able to meet the financial challenges ahead, priority is given to the following:
 - Corporate priorities;
 - Providing for future liabilities;
 - Maintaining and protecting public assets;
 - Investing in the future by ensuring assets are sustainable, encourage economic growth and regeneration, and meet the needs of the community.
 19. This is achieved by:
 - Building up finances for the future, such as the allocation of windfall income to the Capital Fund Account;
 - Maximising external funding opportunities to reduce the reliance on internal resources;
 - Effective project planning and management to ensure schemes are completed on time and within budget.

20. Further Policies contained in the Strategy are:
- [Level of Revenue Contributions for Capital financing](#) (para 88)
 - [Priorities for use of Capital receipts](#) (para 104)
 - [Priorities for the use of CIL](#) (para 85)
 - [The Minimum Revenue Provision calculation](#) (para 105)
 - [Limits to Borrowing](#) (para 122)

KNOWLEDGE AND SKILLS

21. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council also supports junior staff to study towards relevant professional qualifications including CIPFA.
22. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs **Arlingclose Limited** as treasury management advisers and a number of property consultants. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

CAPITAL PROGRAMME

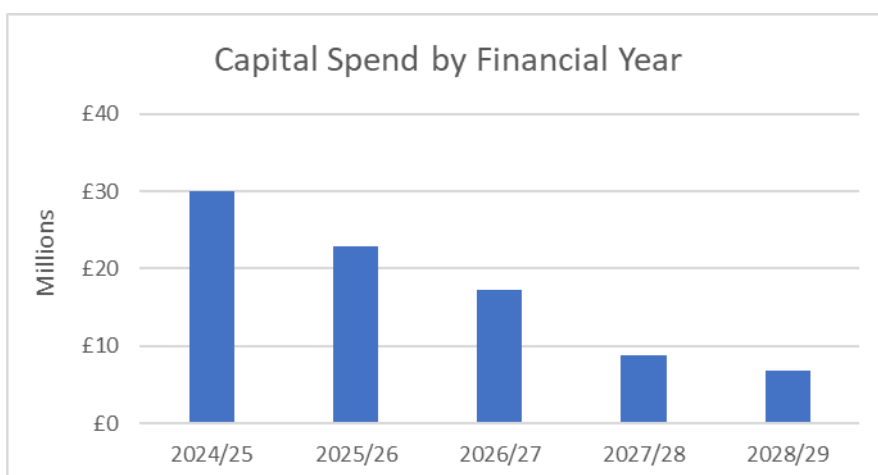
SUMMARY OF CAPITAL PROGRAMME

23. The Council agrees a rolling five-year capital programme each year consistent with the Medium-Term Finance Strategy and the resources available, along with any impact on the revenue budgets.
24. The major **General Fund** capital schemes include the Vehicle Replacement Programme, Fareham Live, schemes at Solent Airport at Daedalus and the Fareham Park Vision.
25. The **Housing Revenue Account (HRA)** is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes new housing developments such as nine new affordable shared ownership flats at Ophelia Court and the redevelopment of Assheton Court.
26. The capital programme for the period 2024/25 to 2028/29 has been updated to take account of re-phased schemes and newly approved schemes such as the Holly Hill Woodland Park Restoration Project and the new Food Waste Collection Service.
27. Total capital expenditure is one of the risk indicators required by the Prudential Code. The Council is planning capital expenditure of £85.9 million in the 5-year capital programme as summarised below (detailed schemes are in **Annex 1**):

Prudential Indicator 1 - Estimates of Capital Expenditure

Capital Expenditure	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	Total £'000
Streetscene	521	1,167	97	1,888	0	3,673
Leisure and Community	6,752	729	1,992	100	0	9,573
Housing	1,026	800	800	800	895	4,321
Planning and Development	323	0	0	0	0	323
Policy and Resources	6,872	2,649	5,684	993	1,079	17,277
Total General Fund	15,494	5,345	8,573	3,781	1,974	35,167
HRA	11,765	17,615	8,610	5,099	4,890	47,979
Local Nutrient Mitigation Fund (PfSH)	2,704	0	0	0	0	2,704
Total Expenditure	29,963	22,960	17,183	8,880	6,864	85,850

28. The graph below shows the relative value of the spend across the five years with 35% of the spending incurring in 2024/25.



29. Major schemes in the capital programme over £2 million are summarised in the table below:

Major Schemes	£'000
HRA Improvements to Existing Stock	21,000
HRA Assheton Court New Build	19,400
Asset Replacement Programme (Vehicles and ICT)	6,468
Solent Airport at Daedalus	4,685
Fareham Live	4,567
Disabled Facilities Grants	4,192
Civic Offices Improvements	3,304
Local Nutrient Mitigation Fund	2,704
HRA Stock Acquisitions	2,500
Fareham Park Vision	2,435
HRA Birks Building Redevelopment	2,159

30. Annex 2 lists all new schemes that have been approved since the 2024/25 Capital Strategy was approved. In addition, the following schemes have been added for approval as part of the 2025/26 Capital Strategy:

- Fareham Leisure Centre PV Panels and Pool Cover - £672,400
- Swordfish Business Park Masterplan - £800,000

CAPITAL SCHEMES

CAPITAL SCHEMES

NEW HOUSING SCHEMES

31. **Ophelia Court (£1.8 million)** is Fareham Housing's second shared ownership development in recent years, following Capella Close. The Council is developing 9 x 1 bed and 2 bed apartments. Work started on site at the end of 2023, with FE Chase Ltd as the building contractor. The development was successful in its grant bid application to Homes England for £447,000 from the Affordable Homes programme 2021-2026. Ophelia Court is due to be ready for occupation in early 2025.
32. **51A Bellfield (£350,000)** is a new home in the side garden of 51 Bellfield. Planning permission was granted in March 2023. The new 3 bedroomed home will be heated with an air source heat pump and includes solar panels on the roof and electric vehicle charging. The appointed contractor, Daintree Developments Ltd, started on site earlier in 2024 and expect to complete the property in early Spring 2025.
33. **Sea Lane, Stubbington (£33,700)**, is one of the packages of sites the Council purchased from Homes England (another of which was Capella Close). The small site has planning permission for 4 x self-build plots. A Deed of Variation between the Council and Homes England for overage was completed in May this year enabling progress of the site, including selling a small strip of land to a neighbour and procuring access works required before the plots can be marketed.
34. In March 2022 Executive approved the funding arrangements and the process to appoint the contractor for the redevelopment of **Assheton Court** in Portchester, to provide up to 60 sheltered housing apartments with an estimated project cost of over **£20million**. A bid was submitted to Homes England for all the Assheton Court apartments to be let at a social rent. The grant bid was approved in the summer for £7,560,000.
35. The old Assheton Court has been demolished and the contractor, Feltham Construction Ltd, has been appointed. Feltham took possession of the site at the end of September 2024 to start preliminary works.
36. In October 2023, Executive approved a bid to be concluded for the acquisition of the former **Birks building (130-136 West Street)** for its redevelopment as affordable housing. This property was acquired in March 2024 and consists of the former Foresters' Hall, a number of ground floor shops and the Birks of Fareham furniture store.

37. The January 2024 Executive set aside **£3 million** for Emergency and Temporary Accommodation. £840,700 of this was used to acquire the building with the balance of £2,159,300 earmarked for the redevelopment of the site. A further report will be provided to the Executive once overall project costs are known. The budget provision has moved from the General Fund Housing portfolio to the HRA to allow more flexibility around the use of the housing units between secured and temporary tenancies and in order for the scheme to be eligible for Homes England grant funding.

TOWN CENTRE REGENERATION

38. The Council has a strong ambition to reverse the decline of Fareham Town Centre through regeneration, recognising the wider placemaking, economic regeneration and health benefits a more successful town centre would bring.
39. Work has already begun to deliver the Council's significant regeneration ambition with the construction of Fareham Live, the demolition and replacement of Osborn Road multi storey car park and the purchase of Fareham Shopping Centre in September 2023.
40. The Council has appointed an asset manager to manage the Shopping Centre and is working closely with specialist regeneration consultants to develop a Town Centre Regeneration Strategy. The Strategy will be presented to the February 2025 Executive and is not currently included in the capital programme.
41. A further report to the Executive, in February 2025, will also set out a number of Asset Management initiatives for Fareham Shopping Centre and associated West Street properties, which are also not currently included in the capital programme.

SOLENT AIRPORT AND DAEDALUS

42. Solent Airport and the Daedalus site is a strategic asset for the Council, and as such will require significant capital investment over time. It also has the potential to generate revenue for the Council, create job opportunities for the borough and the aspiration is for the airport operations (airside and non-airside combined) to be financially self-sustaining.
43. The significance of Daedalus is such that it warrants its own financial operating framework, and the Daedalus Finance Strategy was presented to the Executive in March 2022. The strategy establishes a financial framework for the operation and investment at Solent Airport and the wider Daedalus site, including the approach to capital receipts and its use as a corporate capital resource.

44. Members have financial updates comparing figures against the strategy position at regular meetings of the Daedalus Scrutiny Panel. The Scrutiny Panel will also consider all activities and developments at the site.
45. In June 2023, the Executive approved £2.8 million for **Aeronautical Ground Lighting (AGL)**. There have been unexpected circumstances which have impacted on the AGL project causing both delays and additional costs. For example, a large number of uncharted services were found underground such as pipes and concrete.
46. It is expected that the final cost of the project will be £3.05 million, £250,000 (8.86%) over the £2.8 million approved by the Executive. The detail behind this overspend is noted in the confidential Appendix B, which contains commercially sensitive information.
47. The Council's Procurement and Contract Procedure Rules state that members should be informed if there is an overspend against a single contract of more than 10%. As a result of these unforeseen circumstances, there will be an increase over 10% in the value of two previously awarded contracts on the project. The details are in confidential Appendix B as they are commercially sensitive.
48. The Executive also approved £380,000 for improvements to the **Visual Control Room (VCR)**. The contract with the current airport operator expires 31 March 2026, and there is an active procurement exercise underway. It is possible that the operating model could change from April 2026, and it may be that the need for a VCR is no longer required. Tenderer's for the airport operator contract are expected to demonstrate a business case for all capital investment that is needed to deliver their offering over the life of the new contract. This would include the need for VCR where relevant.
49. The £380,000 budget for the VCR has therefore been removed from the capital programme and the AGL budget has increased by £250,000 to £3.05 million funded from land sale capital receipts at Daedalus.
50. In March 2024, the Executive approved £37 million being added to the capital programme for **Infrastructure Investment at Daedalus**, of which approximately £31.5 million related to Swordfish Business Park. However, the funding sources for this investment are not yet established and so are not included in the capital programme.
51. This coincided with an approval to complete a Memorandum of Understanding (MOU) for the use of retained business rates in the **Enterprise Zone**, which are currently over £2 million. The MOU has now been completed and to comply with wider contractual obligations, the Council now need to Masterplan

Swordfish Business Park. A budget of £800,000 is required to achieve this and obtain a planning consent for infrastructure development. It is requested that the Executive approve expenditure up to this amount funded from retained business rates.

52. To ensure funds are justly committed, expenditure on master planning will be on a phased basis, starting with feasibility testing to understand viability. Expenditure on a planning application would only follow once this has been appropriately tested. Further business plans and approvals will be sought ahead of committing to any development works.
53. In May 2023, the Executive approved a budget of £820,000 for infrastructure works comprising an access road with associated drainage and utility connections. Retained business rates in the Enterprise Zone will also now be used to fund this scheme.
54. At the October 2024 Executive, members approved a budget to alter the **security arrangements at Faraday Business Park**. A further update on this project and the associated financial risks is provided in confidential Appendix B.

CLIMATE CHANGE ACTION PLAN AND NUTRIENT MITIGATION

55. At the June 2021 Executive, members adopted the Council's Climate Change Action Plan detailing the actions the Council is taking to reach carbon neutrality in Scope 1 and 2 emissions by 2030.
56. The annual review of the action plan, presented to the October 2024 Climate Change Scrutiny Panel, highlights areas that require capital funding for projects such as:
 - Energy efficiency improvements to Council properties and housing stock
 - Replacement vans and smaller vehicles that have exceeded their working lifespan with electric versions, where appropriate taking into account cost and performance
 - Electric vehicle charging infrastructure at the Depot to support a growing electrified fleet
 - Replacement of petrol-powered tools that have exceeded their working lifespans with electric versions, where appropriate taking into account cost and performance
 - A potential energy generation site on Council land
57. External sources of funding will be sought where possible to contribute towards priority environmentally sustainable projects and will be an area of spending pressure in the future.

58. Examples of Council bids include the grant awarded from the second phase of Sport England's **Swimming Pool Support Fund** for energy saving and generation improvements at Fareham Leisure Centre and the November 2024 bid to the Public Sector Decarbonisation Scheme to support measures to decarbonise the heating of the Depot.
59. An **Environment Strategy** is being developed which will incorporate Climate Change considerations alongside a range of connected environmental initiatives and projects. The capital funding requirements for projects in the strategy will become clearer when the draft is presented for public consultation in Spring 2025.
60. In March 2024, the Executive approved a budget of £130,000 for a grid connection application to pursue a **Solar Photovoltaic Development at Hook Recreation Ground**. The grid application is still being sought and further viability testing is underway. Should the scheme proceed the capital commitment is estimated at £1,900,000. Further Executive approval will be sought ahead of proceeding beyond the grid application stage.
61. Funding has been received by the Partnership for South Hampshire from the **Local Nutrient Mitigation Fund** to minimise the impact that nutrient pollution has had on the delivery of new homes across the Solent over the last few years. The Council is lead authority of the fund. The deployment of the fund has been approved by the Partnership for South Hampshire Joint Committee and includes the acquisition of agricultural land at Stubbington.

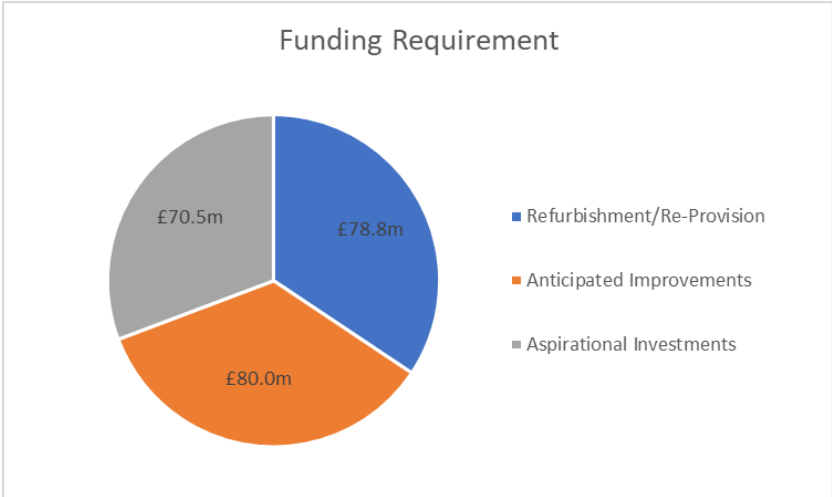
ASSET MANAGEMENT

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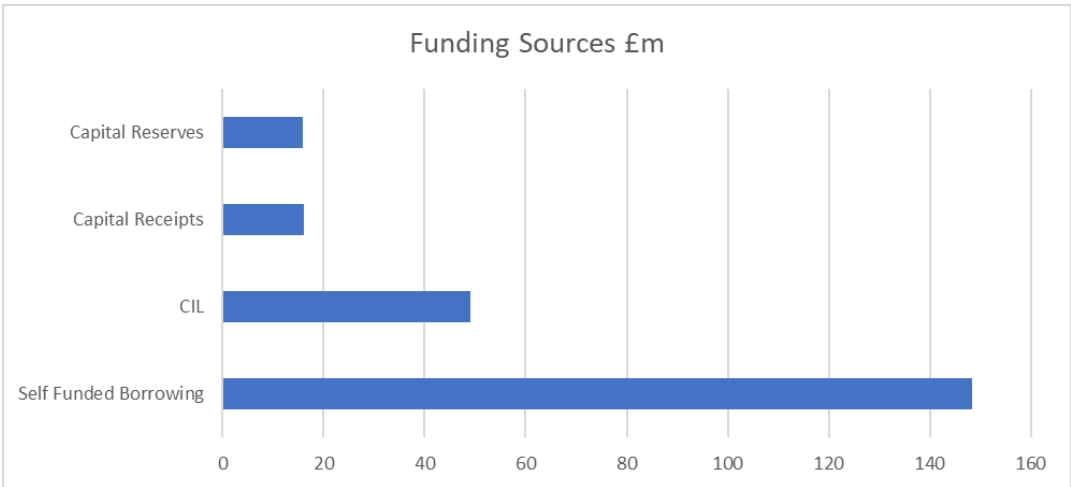
62. One of the Council’s corporate priorities is ‘a dynamic, prudent and progressive Council’ and aims to ‘undertake a major review of all Council owned land and buildings to ensure that we are making the best use of our assets’.

FUTURE FUNDING REQUIREMENTS

63. To ensure that capital assets continue to be of long-term use, a high-level review of the future funding requirements for its land and buildings, excluding Council dwellings has been undertaken. This review covers a 30-year time frame and has identified a capital funding requirement of **£229 million** for refurbishing/re-provisioning existing assets, improving existing assets and aspirational investments as shown in the chart below:



64. The main funding source is self-funded borrowing supported by capital receipts, capital reserves and the community infrastructure levy, as illustrated in the following graph:



65. The Council will put in place a Council-wide plan which will set out the overall direction and framework for the management of its assets to help deliver the Council's priority actions and service delivery needs, now and in the future.

ASSET DISPOSALS

66. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt.

67. Repayments of capital grants, loans and investments also generate capital receipts. The Council estimates to receive capital receipts as follows:

	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Right to Buy Property	400	400	400	400	400
Other Housing Receipts	118	600	0	0	0
General Fund Property	2,387	11,582	25	25	25
Total	2,905	12,582	425	425	425

68. Other Housing Receipts in 2025/26 relates to an estimate of shared ownership sales at Ophelia Court.

69. General Fund Property mainly relates to land and property sales at Daedalus. £6 million of these receipts will be used to repay some of the shopping centre debt, purchased in September 2023.

70. General Fund Property also includes the sale of the three Welborne Cottages. The Council is planning to serve notice in accordance with the option agreement. The capital receipt will be used to cover the MRP costs as the cottages were purchased from borrowing.

REPLACEMENT AND IMPROVEMENT PROGRAMMES

71. At the 4 November Executive, members reviewed and endorsed the 2025-2030 **Vehicle Replacement Programme**, estimating that 50 vehicles will need to be replaced at an estimated maximum cost of £4.68 million.

72. The replacement programme will enable the Council to move to a modern fleet of commercial vehicles that will improve resilience in service delivery, reduce maintenance and vehicle hire costs over the longer term, whilst reducing the carbon emissions.

73. At the same meeting, Members also approved the purchase of five new food waste vehicles, caddies, and bins to enable the Council to introduce food waste collection from 31 March 2026, as part of the Simpler Recycling initiative which was reported to Members at the March 2024 Executive. New Burdens funding of £969,200 has been received to cover the capital costs of implementation.
74. The **ICT Improvement Programme** has been updated to take into account the latest programme of works in the ICT Strategy. This includes a provisional budget of £400,000 for the replacement of a key system used by Streetscene, Land Charges, Environmental Health Partnership and the Building Control Partnership.
75. The Vehicle and ICT Replacement Programmes are funded from [revenue contributions](#) set aside each year. For many years the annual amount has been £625,000. However, the revised Replacement Programmes will exceed this allocation, therefore it is proposed to increase the annual contribution to £850,000.
76. The budget for improvements to existing **housing stock** has also been increased for the current and future financial years covered by the capital programme, for example the budget for 2024/25 is now set at £4.1 million (previously £3 million).
77. This is an area of significant cost pressures that have not been at this level for many years. Contributory factors include continually increasing costs of materials and labour, an ageing stock profile and a need to make the stock greener, along with increased regulation whilst maintaining service standards. Revenue contributions to capital have been increased to support this expenditure.

CAPITAL FINANCING

CAPITAL FINANCING

78. All capital expenditure must be financed, either from **external sources** (government grants and other contributions), the Council's **own resources** (revenue, reserves and capital receipts) or **debt** (borrowing and leases).

FUNDING SOURCES

Capital Receipts

79. Capital receipts are mainly generated by the sale of land and buildings and will be used to fund 5% of the capital programme. The [Asset Disposal](#) section provides further information on forecast capital receipts.

Grants and contributions

80. Grants and contributions from external bodies include developer contributions (Community Infrastructure Levy and S106 contributions) and grant funding from bodies such as Homes England and the Ministry of Housing Communities & Local Government (MHCLG).
81. The table below lists the most significant capital grant funding already received or expected in 2024/25, and the schemes where the funding will be used:

Funding Received 2024/25	Amount £	Capital Scheme
Community Infrastructure Levy	6,314,000	Fareham Live, Osborn Road Car Park, Bus Shelters
Local Nutrient Mitigation Fund (PfSH)	2,703,700	Land Acquisition
Homes England (Affordable Housing)	2,111,000	Assheton Court, Ophelia Court
Disabled Facilities Grant	992,000	Disabled Facilities Grants
UK Shared Prosperity Fund	685,000	Fareham Park Vision
Sport England Swimming Pool Support Fund	672,400	Fareham Leisure Centre PV Panels and Pool Cover
S106 Developer Contributions	528,300	Play Area Improvements, Cams Alders Pavilion, vehicle replacement, HRA stock repurchase
Homes England (Daedalus)	245,000	Daedalus Site Wide
Everyone Active	150,000	Holly Hill Leisure Centre Filtration System
Changing Places Grant (£40,000 used in 2023/24)	10,000	Fareham Live

82. The **Community Infrastructure Levy (CIL)** is a planning charge on many forms of new development that generally involves a net increase in building floorspace, to fund infrastructure.

83. The Council approved its first charging schedule in 2013. Since that time £20.3 million has been raised, as at 31 March 2024, and has been used to fund the schemes in the table below:

Capital Scheme	Amount spent to 31 March 2024 £
Fareham Live	12,168,085
Holly Hill Leisure Centre	2,400,000
Hill Head Coastal Protection	1,045,635
Osborn Road Car Park	664,775
Play Area Improvements	505,846
Holly Hill Cemetery Extension	280,568
Bus Shelters	153,968
Total	17,218,877

84. £3.1 million of unspent CIL and amounts raised during 2024/25 will be used to fund the remaining costs of Fareham Live and Osborn Road Car Park.

85. The Council is forecast to receive approximately £18.7 million more CIL funding over the next 5 years as shown in the table below:

Year	Forecast CIL £
2024/25	2,386,800
2025/26	193,050
2026/27	2,930,850
2027/28	8,862,750
2028/29	4,369,950
Total	18,743,400

86. However, it is important to note that the forecast is heavily caveated on delivery assumptions such as when developments commence and dwelling size.

87. CIL receipts will be used to meet future community infrastructure projects in accordance with the priorities of the Council. The Holly Hill Woodland Park Restoration Project has been earmarked £436,000 to preserve and enhance the heritage, ecological and recreational site. In addition, CIL receipts of up to £2.15 million may be used to part fund the leisure, community and sports improvements at Fareham Park depending on the success of any external funding bids.

EZ Retained Business Rates

88. Part of the Daedalus site is designated as an Enterprise Zone which allows any growth in business rates there to be retained for investment in the local area. A Memorandum of Understanding (MOU) for the use of the retained business rates in the **Enterprise Zone**, has now been completed. The current value of the receipts is over £2 million.

89. To draw on this, the Council needs to comply with the terms of the MOU with Gosport Borough Council and Hampshire County Council.

Revenue Contributions

90. Revenue contributions fund rolling programme schemes such as the vehicle replacement programme and the ICT improvement programme. The Council currently sets aside £625,000 a year from revenue contributions. Due to increases in the needs of both replacement programmes, it is proposed to increase this to £850,000.

91. In addition, £500,000 is set aside annually to fund asset management plans such as the Civic Offices, Council Depot, community buildings and sports pavilions. The proposed budget for both revenue contributions will increase to £1.35 million and will be included in the Medium-Term Finance Strategy.

Borrowing

92. Borrowing can be from the use of internal resources (surplus cash) or external borrowing such as local authorities and the Public Works Loan Board (PWLb). Borrowing is repaid by making a Minimum Revenue Provision (see section below).

FINANCING PLAN FOR THE CAPITAL PROGRAMME

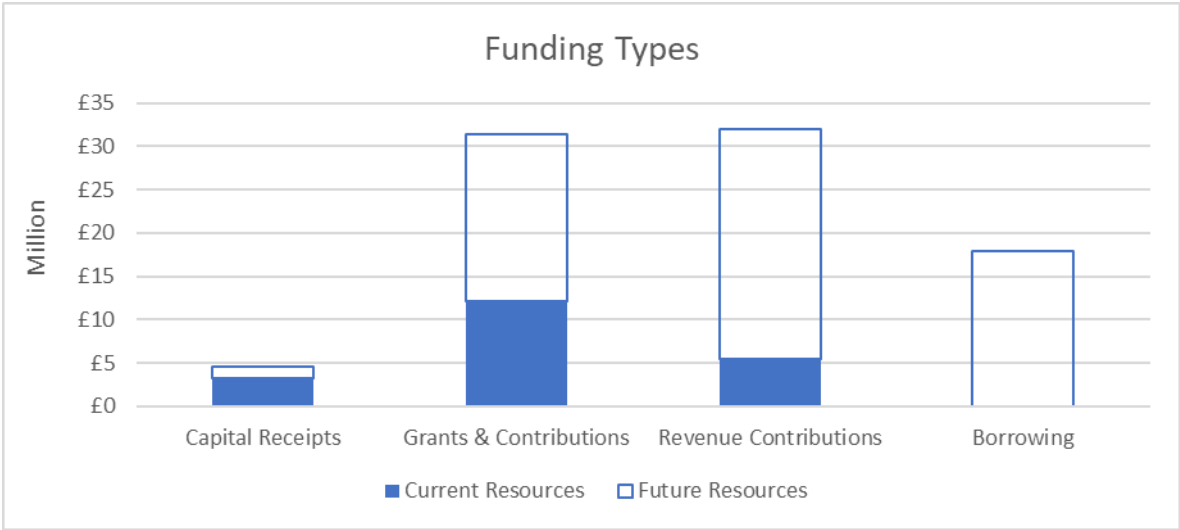
93. The planned financing of the expenditure in the Capital Programme is as follows:

Prudential Indicator 1 - Estimates of Financing

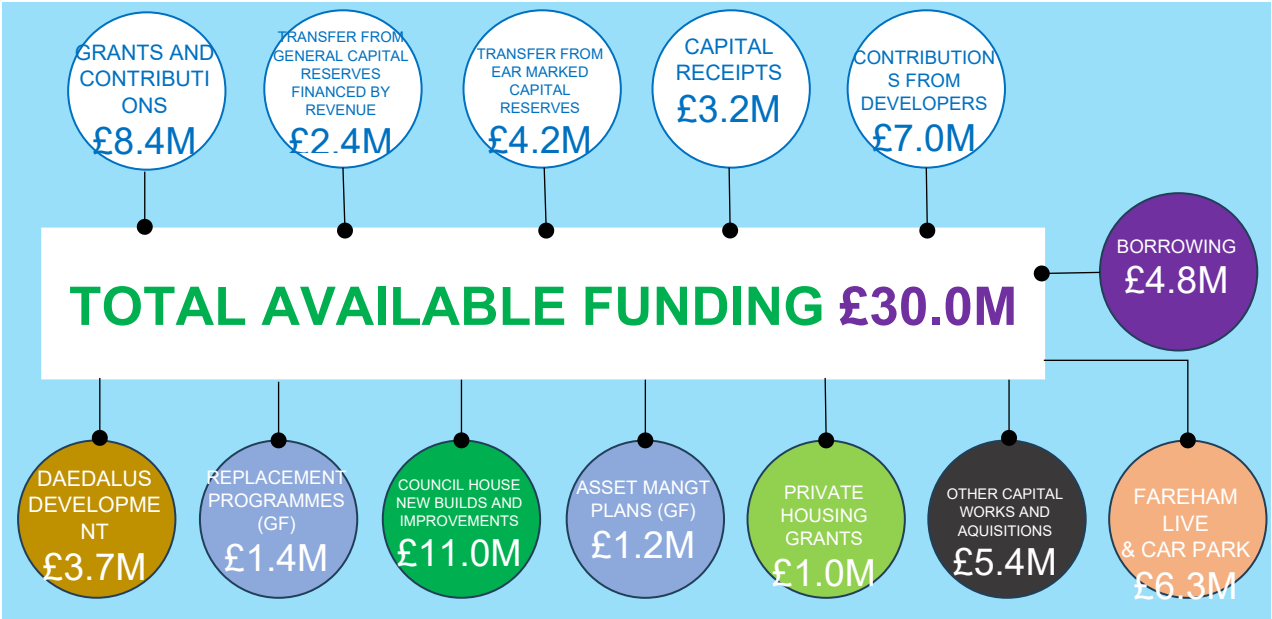
Capital Financing	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000	Total £'000
Capital Receipts	3,190	514	250	250	345	4,549
Grants & Contributions	15,375	8,827	2,997	3,102	1,095	31,396
Revenue Contributions	6,584	6,339	8,324	5,369	5,424	32,040
Borrowing	4,814	7,280	5,612	159	0	17,865
Total Financing	29,963	22,960	17,183	8,880	6,864	85,850

94. Total resources of **£94 million** are estimated to be available over the life of the capital programme resulting in £8.1 million unallocated in this Strategy.

95. The chart below shows the different funding types split between current and future resources. Grants and contributions and revenue contributions are the largest funding sources, each financing 37% of the programme.



96. The funding split for 2024/25 is shown in the diagram below.



PRESSURES AND RISKS

97. The forecast surplus of resources is limited and relies partly on resources that have not yet been secured (such as future capital receipts and grants as well as continued revenue contributions towards capital investment), totalling **£64 million**.

98. In the event that these resources do not materialise, other funding options will need to be investigated including borrowing, reliance on external funding or the programme scaled back.

- 99. It must also be borne in mind that the implications of some of the Council’s priority actions, such as Town Centre Regeneration, the Fareham Park Vision and Welborne, and emerging capital spending pressures have not yet been quantified. Costs associated with approved schemes also remain provisional until tenders have been received.
- 100. Spending pressures including repair and refurbishment, or replacement works to all Council assets have also yet to be added to the capital programme.
- 101. The full costs of the following projects have not yet been included in the capital programme:
 - Civic Offices full asset management plan
 - Car parks asset management plan
 - Depot heating decarbonisation
 - Environment strategy
 - Fareham Park vision
 - Town centre regeneration
 - Daedalus infrastructure investment

DEBT, MRP and CFR

102. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually by putting aside revenue resources to repay debt which is known as **Minimum Revenue Provision (MRP)**. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

103. Planned MRP and use of capital receipts are as follows:

	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Minimum Revenue Provision	1,666	1,747	1,798	1,850	1,903
Future Capital Receipts	2,000	6,853	0	0	0

- 104. Borrowing costs (MRP and interest charges) for schemes funded by debt will be covered by revenue generating assets.
- 105. The MRP budget provision reflects the capital costs relating to commercial property purchases, shopping centre and construction works at Solent Airport at Daedalus including the Innovation Centre extension and hangars.

106. A priority call for the use of future capital receipts in the table above will be to repay the shopping centre debt. These capital receipts are from land sales at Daedalus, and also includes the sale of the Welborne cottages.

MRP Policy Statement

107. The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. The main policy adopted is that MRP will be determined by charging the expenditure over the **expected useful life** of the relevant assets on an **annuity basis** starting in the year after the asset becomes operational. This calculation will be reviewed on a case-by-case basis depending on the circumstances and with a view to minimising the impact on the council tax payer.

108. Where expenditure is on an asset which will be held on a short-term basis (up to 5 years), no MRP will be charged. However, the capital receipt generated by the sale of the asset will be used to repay the debt instead.

109. No MRP will be charged in respect of assets held within the HRA but depreciation on those assets will be charged instead in line with regulations.

Capital Financing Requirement

110. The Council's cumulative outstanding amount of debt finance is referred to as the **Capital Financing Requirement (CFR)** and is another prudential indicator. The CFR increases with new debt-financed capital expenditure and reduces when MRP and capital receipts are used to replace debt.

111. The CFR indicator is a measure of the Council's underlying need to borrow for a capital purpose taken from the balance sheet. This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits.

112. The CFR is expected to increase by £0.5 million during 2025/26 mainly due to MRP being less than debt funded capital expenditure. The Council's estimated CFR is as follows:

Prudential Indicator 2 - The Council's borrowing need

	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
General Fund	63,659	55,059	53,261	51,411	49,508
HRA	60,899	68,179	61,911	62,211	62,211
Total CFR	124,558	123,238	115,172	113,622	111,719

113. The decrease in CFR in 2026/27 is mainly due to the repayment of a £9.3 million loan between the General Fund and HRA as part of the HRA reforms in 2012.

TREASURY MANAGEMENT

TREASURY MANAGEMENT

- 115. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.
- 116. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 117. At 31 March 2024, the Council had £64.6 million borrowing and £13.6 million treasury investments.
- 118. The Treasury Management Strategy and Investment Strategy for 2025/26 will be presented separately at the February meeting of the Executive.

BORROWING STRATEGY

- 119. The Council’s main objective when borrowing is to achieve a low but sufficiently certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.
- 120. Projected levels of the Council’s total outstanding debt are shown below, compared with the capital financing requirement.

Prudential Indicator 3 - Gross debt and the capital financing requirement

	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Debt at 31 March	66,900	71,300	70,600	69,900	69,300
Capital Financing Requirement (CFR)	124,558	123,238	115,172	113,622	111,719

- 121. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the table above, the Council expects to comply with this in the medium term.

AFFORDABLE BORROWING LIMIT

- 122. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and a lower “operational boundary” set as a warning level should debt approach the limit.

123. The operational boundary is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. This is the limit beyond which external borrowing is not normally expected to exceed.
124. The authorised limit represents the maximum amount of debt that the Council can legally owe. The limit provides headroom over and above the operational boundary for unusual cash movements.

Prudential Indicator 4 - Limits to Borrowing Activity

	2024/25 Revised £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Operational Boundary	148,000	158,000	157,000	159,000	157,000
Authorised Limit	158,000	168,000	167,000	169,000	167,000

125. Further details on borrowing are in the Council's Treasury Management Strategy.

TREASURY INVESTMENT STRATEGY

126. The Council invests its money for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
 - to support local public services by lending to or buying shares in other organisations (**service investments**), and
 - to earn investment income (known as **commercial investments** where this is the main purpose).
127. The Council does not currently have service investments.

Treasury Investment Policy

128. The Council's policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.
129. Money that will be held for longer terms is invested more widely, including property and multi-assets funds containing bonds and shares, to balance the risk of loss against the risk of receiving returns below inflation.

130. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy, and the Council may request its money back at short notice.
131. Further details on treasury investments are set out in the Council's Treasury Management Strategy.

Treasury Investment Risk Management

132. The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses.

Treasury Investment Governance

133. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Statutory Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Full Council.
134. Reports on treasury management activity are presented to the Executive. The Audit and Governance Committee is responsible for scrutinising treasury management decisions and therefore is presented with the annual Treasury Management Policy for comment, and reports on adherence to this Policy.

COMMERCIAL ACTIVITIES

Commercial Investments Policy

135. With central government financial support for local public services declining, the Council previously invested in commercial property to secure a financial gain. Total commercial investments that have been purchased in accordance with the Council's Commercial Property Investment Acquisition Strategy are summarised below and are currently valued at **£33.6 million** and expected to generate rental income of £2.6 million during 2025/26.

Property Type	Current Value £'000
Retail	20,570
Commercial (Industrial)	11,160
Other (Healthcare)	1,830
Total	33,560

136. The Council's total investment portfolio, shown below, is valued at **£66.5 million** and includes Faretec, industrial sites at Palmerston Business Park and

Newgate Lane and the freehold value of Fareham Shopping Centre. The total portfolio is expected to generate rental income of £4.6 million during 2025/26.

Property Type	Current Value £'000
Retail	32,025
Commercial	23,756
Other	4,217
Office	4,925
Leisure	1,536
Total	66,459

Commercial Investments Risk Management

137. With financial return being a key objective, the Council accepts higher risk on commercial investment than with treasury investments. Investing in property is not risk-free, so it is important that any acquisitions reflect the Council's risk appetite in terms of maintaining the capital value of the asset in the long term, and extent to which rental income is guaranteed.
138. The principal risk exposures include vacancies and the resultant loss of income, added costs of holding a vacant property and cost of marketing and re-letting the property.
139. These risks are managed by ensuring:
- funds available for new purchases are disaggregated to limit the overall impact that any single investment would have on the Council's finances;
 - there is a mix of property types in the portfolio e.g. retail, industrial, etc.;
 - new purchases are only considered with existing tenants of "high quality" and sufficiently long lease terms;
 - appropriate checks are carried out to ascertain the tenant's reliability before the investment is made and periodically afterwards;
 - other "due diligence" is undertaken to protect the Council's investment as far as possible such as checks on planning conditions, land contamination issues and planning policy issues.
140. The majority of investments will be held for a medium to long term in order to achieve the required return and to justify the cost of the acquisition. However, as part of the investment decision, consideration is also given to the potential ways in which the Council could "exit" from the investment, such as sale to

another investor, sale for redevelopment, etc. An investment only proceeds where there is a clear exit strategy, should it be required.

Commercial Investments Governance

141. The Executive approved a Commercial Property Investment Acquisition Strategy on 7th January 2013.
142. The steps taken before a decision to purchase a property are clearly documented and tested via a challenge process involving the Head of Asset Management, Statutory Chief Finance Officer and the Executive portfolio holder for Policy Strategy and Finance.
143. Decisions on commercial investments are made by the Executive in line with the criteria outlined in the Commercial Property Investment Acquisition Strategy.
144. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

Prudential Indicator 5 – Net income from commercial investments to net revenue stream

	2024/25 Revised	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Total net income from commercial investments £'000	3,531	3,432	3,432	3,432	3,432
General Fund Proportion of net revenue stream	27%	25%	25%	25%	25%

LIABILITIES

145. In addition to debt detailed above, the Council is committed to making future payments to cover its **pension fund deficit** (valued at £8.9 million as at 31 March 2024). It has also set aside provisions of £2.5 million mainly to cover **business rate appeals**.
146. Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the Statutory Chief Finance Officer. The risk of liabilities crystallising and requiring payment is monitored by Finance and reported as necessary.
147. Further details on liabilities are given in the 2023/24 Statement of Accounts.

REVENUE BUDGET IMPLICATIONS

148. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable.
149. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from Council Tax, business rates, general government grants and housing rents.

Prudential Indicator 6 - Proportion of financing costs to net revenue stream

	2024/25 Revised	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
General Fund Financing costs £'000	1,342	1,397	1,448	1,500	1,553
General Fund Proportion of net revenue stream	13%	14%	13%	13%	12%
HRA Financing costs £'000	2,008	2,203	2,203	2,203	2,203
HRA Proportion of net revenue stream	13%	14%	13%	13%	12%

150. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 30 years into the future. The Statutory Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

ANNEX 1 - CAPITAL PROGRAMME 2024/25 to 2028/29

	Scheme Budget £	Spend to 31/03/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £	5 year Total £	Funding Source
STREETSCENE									
Streetscene Asset Management Plan	462,000	30,000	315,500	116,500				432,000	Reserves
Bus Shelters	451,500	354,100	8,400			89,000		97,400	CIL
Play Area Safety Equipment & Surface Replacement	350,000	146,600	53,400	50,000	50,000	50,000		203,400	S106
Simpler Recycling Programme	969,200	0		969,200				969,200	External contributions
Holly Hill Woodland Park Restoration	2,046,000	75,350	143,200	31,500	47,300	1,748,600		1,970,600	Lottery grant (tbc), S106
STREETSCENE TOTAL			520,500	1,167,200	97,300	1,887,600	0	3,672,600	
LEISURE & COMMUNITY									
Buildings									
Fareham Live	16,740,000	12,173,400	4,566,600					4,566,600	CIL
Leisure Centres Capital Investment	6,810,000	6,363,300	305,000		141,700			446,700	Borrowing
Fareham Leisure Centre PV Panels & Pool Cover	672,400	0	672,400					672,400	External contributions
Holly Hill Leisure Centre Filtration System	281,000	0	281,000					281,000	External contributions, Capital reserves
Community Buildings Review	422,000	65,300	34,500	322,200				356,700	Capital reserves
Whiteley Community Centre Refurbishment	40,000	0		40,000				40,000	Capital receipts
Cams Alders Pavilion Roof & Masonry Repairs	100,000	0	100,000					100,000	S106
Fareham Park Vision	2,435,000	0	685,000		1,750,000			2,435,000	UKSPF grant, S106
			6,644,500	362,200	1,891,700	0	0	8,898,400	
Play Schemes									
Play Area Improvement Programme	500,000	92,100	107,900	100,000	100,000	100,000		407,900	S106
Skate Park Upgrade - Wicor Recreation Ground	100,000	0		100,000				100,000	S106
Skate Park Upgrade - Stubbington Recreation Ground	100,000	0		100,000				100,000	S106

	Scheme Budget	Spend to 31/03/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total	Funding Source
	£	£	£	£	£	£	£	£	
Fareham College Play Area	50,000	0		50,000				50,000	S106
			107,900	350,000	100,000	100,000	0	657,900	
Other Community Schemes									
Allotment Improvements				16,300				16,300	S106
LEISURE & COMMUNITY TOTAL			6,752,400	728,500	1,991,700	100,000	0	9,572,600	
HOUSING									
Home Improvements									
Disabled Facilities Grants			992,000	800,000	800,000	800,000	800,000	4,192,000	External contributions
Empty Homes Strategy							95,400	95,400	Capital receipts
			992,000	800,000	800,000	800,000	895,400	4,287,400	
Enabling									
Sea Lane, Stubbington - Self Builds			33,700					33,700	Capital receipts
HOUSING TOTAL			1,025,700	800,000	800,000	800,000	895,400	4,321,100	
PLANNING & DEVELOPMENT									
Car Parks - Surfacing			323,200					323,200	Capital reserves
PLANNING & DEVELOPMENT TOTAL			323,200	0	0	0	0	323,200	
POLICY AND RESOURCES									
Replacement Programmes									
Vehicle Replacement Programme			778,000	693,900	690,400	849,500	899,000	3,910,800	Revenue contributions, external contributions
Plant Replacement Programme			100,000	80,000	80,000	80,000	80,000	420,000	Revenue contributions
Upgrade Electric Vehicle Infrastructure	50,000	0	50,000					50,000	Revenue contributions
ICT Development Programme			257,300	257,000	440,000	63,600	100,000	1,117,900	Revenue contributions
			1,185,300	1,030,900	1,210,400	993,100	1,079,000	5,498,700	

	Scheme Budget	Spend to 31/03/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total	Funding Source
	£	£	£	£	£	£	£	£	
Operational Buildings									
Civic Offices Improvement Programme			100,000	500,000	2,703,800			3,303,800	Capital reserves
Depot Asset Management Works			177,700					177,700	Capital reserves
			277,700	500,000	2,703,800	0	0	3,481,500	
Property Developments									
Osborn Road Car Park	2,500,000	817,700	1,682,300					1,682,300	CIL
166 Southampton Road Repairs	1,193,500	1,163,500	30,000					30,000	Capital receipts
			1,712,300	0	0	0	0	1,712,300	
Solent Airport at Daedalus									
Daedalus Site Wide			245,000					245,000	External contributions
Aeronautical Ground Lighting System	3,050,000	1,032,800	2,017,200					2,017,200	Capital receipts
Performance Based Navigation	200,000	12,400		187,600				187,600	Capital receipts
Airport Supply Assets	165,000	0	165,000					165,000	Capital receipts
Infrastructure Improvements - Access Road	820,000	0	820,000					820,000	Enterprise Zone receipts
Purchase of Strategic Land at Faraday	200,000	0	200,000					200,000	Capital receipts
New Security Arrangements at Faraday	250,000	0	250,000					250,000	Capital receipts
Infrastructure Investment Plan	800,000	0		800,000				800,000	Enterprise Zone receipts
			3,697,200	987,600	0	0	0	4,684,800	
Other									
Hook Recreation Ground Solar Farm	1,900,000	0		130,000	1,770,000			1,900,000	Borrowing, Rev cont.
			0	130,000	1,770,000	0	0	1,900,000	
POLICY & RESOURCES TOTAL			6,872,500	2,648,500	5,684,200	993,100	1,079,000	17,277,300	
GENERAL FUND TOTAL			15,494,300	5,344,200	8,573,200	3,780,700	1,974,400	35,166,800	

	Scheme Budget	Spend to 31/03/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total	Funding Source
	£	£	£	£	£	£	£	£	
HOUSING REVENUE ACCOUNT									
Improvements to Existing Stock									
Improvements to Existing Stock			1,400,000	1,600,000	1,700,000	1,800,000	1,800,000	8,300,000	Major Repairs, Rev cont.
Improvements to Void Stock			2,100,000	2,000,000	2,000,000	2,000,000	2,000,000	10,100,000	Major Repairs, Rev cont.
Disabled Modifications			600,000	500,000	500,000	500,000	500,000	2,600,000	Major Repairs, Rev cont.
			4,100,000	4,100,000	4,200,000	4,300,000	4,300,000	21,000,000	
Acquisitions and New Builds									
Acquisitions			500,000	500,000	500,000	500,000	500,000	2,500,000	Capital receipts, S106
Assheton Court	20,049,600	649,600	5,000,000	12,400,000	2,000,000			19,400,000	Borrowing, HE grant
51 Bellfield	350,000	40,000	275,000	35,000				310,000	S106
Ophelia Court	1,782,000	22,000	1,520,000	240,000				1,760,000	Borrowing, HE grant
Birks Building	3,000,000	840,700	100,000	200,000	1,700,000	159,300		2,159,300	Borrowing, other tbc
			7,395,000	13,375,000	4,200,000	659,300	500,000	26,129,300	
Other									
Regeneration Feasibility			25,000	50,000	75,000	50,000		200,000	Revenue contributions
Vehicle Replacement Programme			245,000	90,000	135,000	90,000	90,000	650,000	Revenue contributions
			270,000	140,000	210,000	140,000	90,000	850,000	
HOUSING REVENUE ACCOUNT TOTAL			11,765,000	17,615,000	8,610,000	5,099,300	4,890,000	47,979,300	
OTHER (PFSH)									
Local Nutrient Mitigation Fund Land Acquisition	2,703,700	0	2,703,700					2,703,700	External contribution from MHCLG grant.
OTHER TOTAL			2,703,700	0	0	0	0	2,703,700	
TOTAL CAPITAL PROGRAMME			29,963,000	22,959,200	17,183,200	8,880,000	6,864,400	85,849,800	

NEW CAPITAL SCHEMES APPROVED SINCE THE LAST CAPITAL STRATEGY

Scheme	Portfolio	Scheme Budget	Funding Source	Executive Date
Emergency & Temporary Accommodation	HRA	£3,000,000	Borrowing	08/01/2024
Purchase of Strategic Land at Daedalus	Policy & Resources	£200,000	Capital Receipts	08/01/2024
Simpler Recycling – Food Waste Collection	Streetscene	£969,200	Grant	04/03/2024
Solent Enterprise Zone – Infrastructure Investment Plan	Policy & Resources	£37,000,000	Retained Business Rates, Other tbc	18/03/2024
Holly Hill Woodland Park Restoration Project	Streetscene	£2,046,000	Developer Contributions, CIL, Lottery Grant	03/06/2024
Local Nutrient Mitigation Fund – Land Acquisition	Policy & Resources	£2,703,700	Grant	01/07/2024
Holly Hill Leisure Centre Filtration System	Leisure & Community	£281,000	Contributions, Capital Reserves	01/07/2024
New Security Arrangements at Faraday Business Park	Policy & Resources	£250,000	Capital Receipts	07/10/2024
Vehicle Replacement Programme	Streetscene	£4,680,000	Revenue Contributions, Developer Contributions	04/11/2024