

Date: 17 November 2022

Councillor Chris Weaver,  
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Dear Chris,

### **PRAP Scrutiny Committee 15 November 2022: Capital Programme m6 2022/23**

Thank you for attending Committee on 15 November 2022 to facilitate scrutiny of the Capital Programme at month 6 2022/23. Please also pass on my appreciation to the Corporate Director Resources, Chris Lee, Head of Finance, Ian Allwood, and Account Manager, Capital, Anil Hirani, for their presentation and for attending in person. Members of the Committee were pleased to have an opportunity to look at the Capital position in more detail. Firstly, may we congratulate you on multiple references to Cardiff's Capital Strategy within the CIPFA code of practice. Members have asked me to pass on their comments, observations and requests as follows.

#### **A rolling programme**

The Committee notes that the Council, in borrowing to fund its long-term projects is driven by the 5-year Capital Strategy 2022/23- 2026/27, as agreed by Council in February 2022. We note your clarification that the Capital Programme is a rolling programme of projects that require financial investment. As such, the Council's capital borrowing is a sum that covers all capital projects within the programme. Borrowing arrangements are not allocated to individual projects. Decisions are taken within the context of the Treasury Strategy, which states the minimum revenue provision must be a part of the prudential assessment. Reflecting on this Members were keen to establish what assessments take place to project the length of borrowing for specific projects, such as a new school. I therefore **request** a response and a copy of the assessment process in place for determining the life span of the project funded through borrowing.

## **Risk assessment**

The Committee explored your approach to risk assessment of borrowing to support the Capital Programme, given the current economic climate of volatile interest and inflation rates. We note that risk assessment focusses on the investment decision as one the Council is taking for the long-term future of the city, and why the investment is required. We would, however, like further clarity on how exactly you approach the re-prioritisation of schemes and therefore **request** that you address this in your response to this letter. We would also welcome further detail of the risk assessments undertaken regarding the Capital Programme in light of the changing and uncertain economic climate.

## **Risk appetite**

Members explored the Council's risk appetite, and whether this has changed within the current economic climate. We note that, going forward, you consider the cost of borrowing to fund capital projects will increase, but that projects chosen by members do pay back at some point and their affordability is regularly reviewed against prudential indicators. The chosen projects have a robust business case, and an exit strategy, and will be reviewed for the 2023/24 budget. We note that the affordable borrowing limit for the Council set out in its Capital Strategy is £1.4billion, as set within the 2022/23 budget, and the Council is currently benefitting from low fixed rate borrowing secured last year. We **request** that you set out in your response the 'big ticket' projects funded by the Capital Programme that do not yet have borrowing arrangements in place, and the revised costs of these projects given increases to interest rates.

## **Borrowing consequences**

The Committee notes that the Council currently sets aside £40.3m per annum to fund its capital programme borrowing requirement. This sum is accounted for in the revenue budget under the *Capital Financing* line. Members concern was whether the Council is still paying for past capital investment, and whether historic payments ever compromise the revenue budget. We note officers view that, where the Council cannot fund a project from its current budget, borrowing is sometimes the only route to delivery, and a key consideration is the cost of not borrowing and the consequences of not investing in a project, for example investment in infrastructure where capital investment will deliver maintenance savings.

### **Payback term**

Members are keen to ensure that the payback term on a capital project is appropriate to its lifespan, and that maintenance costs are factored into the project at the outset to ensure a sound investment. For example, the £4m we are borrowing to resurface highways this year, how could we be sure they will last 20 years, and appropriate maintenance costs have been factored in? We were referred to the Highways Asset Management Plan and assured that an ongoing maintenance plan is critical to avoid more pressure on borrowing. Officers added that balance is critical. There are also other levers to access funds, the Council must therefore spread the borrowing and achieve a balance between grants and capital borrowing. Given that this is a rolling programme, Members are keen to establish whether the Council has ever been in the position of having borrowed to fund a project that takes longer to pay back than the project lifetime? I therefore **request** that you address this in your response please.

### **Project aspirations**

Given the current budget challenges the Council is facing, Members expressed concern at the increasing percentage costs of capital payments and whether the Council is making responsible decisions aspiring to large scale projects, particularly if there is a risk that smaller projects, such as roads, may suffer as a consequence. We note that projects such as the Arena are invest-to-generate income projects, and decision making is founded on a critically robust business case that sets out income and regeneration possibilities from capital investment.

### **Benchmarking borrowing**

The Committee is seeking an understanding of how Cardiff compares with core cities on borrowing to support capital projects. We note that you have previously benchmarked borrowing levels, and we **request** sight of the comparisons you provided to the Governance and Audit Committee. We note that you urge caution in the comparisons made, as not all local authorities operate a housing stock for which they are fully responsible. We were seeking assurance that Cardiff would not sell its housing stock at any point in the future and were pleased to hear that the Cabinet is committed to building and retaining its own housing stock.

### Requests following this scrutiny:

- A copy of the assessment process in place for determining the life span of a project funded through borrowing.
- Clarification of how you approach the re-prioritisation of capital schemes.
- Further detail of the risk assessments undertaken regarding the Capital Programme in light of the changing and uncertain economic climate.
- A list of the 'big ticket' projects funded by the Capital Programme that do not yet have borrowing arrangements in place, and the revised costs of these projects given increases to interest rates.
- Has the Council ever been in the position of having borrowed to fund a capital project that takes longer to pay back than its lifespan?
- Sight of the borrowing benchmarking comparisons you provided to the Governance and Audit Committee.

Finally, on behalf of the Committee, thank you once again for facilitating our focus on the Capital Programme 2022/23. This was an interesting scrutiny and I look forward to your response.

Yours sincerely,



**COUNCILLOR JOEL WILLIAMS  
CHAIR, POLICY REVIEW AND PERFORMANCE SCRUTINY COMMITTEE**

cc Members of the Policy Review & Performance Scrutiny Committee  
Leaders of Opposition Parties – Adrian Robson, Rhys Taylor & Andrea Gibson  
Chris Lee, Corporate Director, Resources  
Ian Allwood, Head of Finance  
Anil Hirani, Account Manager, Capital  
Chris Pyke, OM Governance & Audit  
Tim Gordon, Head of Communications & External Relations  
Jeremy Rhys, Assistant Head of Communications and External Affairs  
Gary Jones, Head of Democratic Services  
Alison Taylor, Cabinet Support Officer  
Joanne Watkins, Cabinet Business Manager  
Andrea Redmond, Committees Support Officer.