

Response to Consultations on Cipfa Prudential Code for Capital Finance in Local Authorities and Cipfa Treasury Management Code of Practice

Purpose of report

For decision.

Summary

Following an initial consultation in April, Cipfa are now consulting on draft revised text of both the Prudential Code for Capital Finance and the Treasury Management Code. The proposed revisions are more extensive than anticipated but are aimed at improving governance around capital expenditure and investment decisions by local authorities while not restricting freedoms provided that the good governance is followed. A suggested draft response from the LGA is appended for approval.

Recommendation

That the Resources Board approve the LGA's response to the consultation on the Cipfa Prudential Code for Capital Finance in local authorities and Cipfa Treasury Management Code of Practice for submission.

Action

That the approved response is submitted to Cipfa.

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Response to Consultations on Cipfa Prudential Code for Capital Finance in Local Authorities and Cipfa Treasury Management Code of Practice

Background

1. The Prudential Code for Capital Finance in Local Authorities (the “Prudential Code”) was introduced in 2004 and last revised in 2011. Local authorities are required to “have regard” to it when developing their capital investment plans. In practice, the Prudential Code plays a central part in local authorities being able to determine the level of capital investment that they are able to undertake. The introduction of the code, and the legislation behind it, in 2004, was a major step in freeing local government from centrally imposed borrowing controls and the Government placing genuine trust and reliance in local government’s ability to manage its own affairs according to the sector’s own professional standards. The track record of local government since the Prudential Code was first introduced has shown both that local government has proved worthy of that trust and that the code has an important place in enabling successful locally determined capital investment by local authorities compared to central controls.
2. The Treasury Management Code of Practice was introduced in 2001/02. Again, local authorities are required to “have regard” to the code in setting up and approving their treasury management arrangements. In practice the code is widely used, and it is likely that any local authority not following it would be required to justify (e.g. to its external auditors) why it had not used it.
3. Earlier this year Cipfa carried out an initial consultation on the scope of its forthcoming review of the Prudential Code for Capital Finance and the Treasury Management code. Resources Board approved the LGA’s response, which emphasised the strengths of the current arrangements, to these initial consultations at the April meeting of Resources Board.
4. Cipfa has now issued draft revised codes for consultation ([Consultation on the Prudential Code for Capital Finance | CIPFA](#) and [Proposed Changes to the Treasury Management Code | CIPFA](#)). The final version of these code are expected to be published at the end of the year. The deadline for responding to the consultation codes is 30 September 2017.
5. The changes to the codes are more extensive than expected. The proposed revisions strengthen the governance around capital financing and investments and should enable local authorities to retain the freedoms of the current arrangements while strengthening local understanding and reporting.
6. The draft response is included at **Appendix 1** to this report for approval.

Issues

7. An important driver behind some of cipfa's revisions to both codes is the current high profile of local authority investments. Local authority investments represent an important income stream, generating over £1 billion in 2016/17¹. The revisions to the codes are aimed at ensuring that the public can be confident in the governance framework around decision making on investments and borrowing, and that decisions are made with due regard to accumulated risk, reward, prudence sustainability and affordability. It is anticipated that the Government will consult on revisions to its investment guidelines shortly and these are expected to dovetail with the revised Cipfa codes.
8. In summary, the changes to the Prudential code move away from a calculation based approach based on specific financial indicators to an approach based on principles to show that capital expenditure and investments decisions are clearly taken in line with service objectives as well as other key matters (stewardship, value for money, prudence, sustainability and affordability). A key part of this is a new requirement for a capital strategy to be reported to full council annually, with an explicit report from the Chief Financial officer on deliverability, affordability and risk.
9. The principal changes to the Treasury Management code regarding investments are to extend the code to cover all investments, not just those formally classed as "Treasury".
10. The other major area of change is for the codes to be extended to cover new structures such as combined authorities and elected mayors, and also group entities. This appears to be a logical step.
11. Overall, the changes appear to offer an improvement on the current arrangements and should ensure that local authorities retain necessary freedoms if they follow the enhanced governance arrangements. The draft response attached is therefore supportive of the revised codes.

Implications for Wales

12. The codes apply to all UK local authorities, including Wales. The impact on Welsh local authorities is therefore the same as the impact on English local authorities.

Financial Implications

13. This is part of the LGA's core programme of work and as such has been budgeted for.

Next steps

14. Draft suggested consultation response appended for approval.

¹ [DCLG Revenue Outturn 2016/17](#)