

# Local Government Association

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

September 2017



### About the Local Government Association

The Local Government Association (LGA) is the national voice of local government. We work with councils to support, promote and improve local government.

We are a politically-led, cross party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. We aim to influence and set the political agenda on the issues that matter to councils so they are able to deliver local solutions to national problems. The LGA covers every part of England and Wales, supporting local government as the most efficient and accountable part of the public sector.

This response has been approved by the LGA's Resources Board.

### General points

As we stated in our response to the initial consultation in April, the LGA is of the opinion that the arrangements introduced in 2002 (Treasury Management code) and 2004 (Prudential Code) have worked well and provide a good governance framework to be followed by local authorities. We are therefore of the strong opinion that the present review should not fundamentally alter these arrangements. Overall, although the changes proposed mean that both codes undergo an extensive re-write, we believe that the changes will only improve what is already a good governance framework used and will strengthen good decision making by local authorities. We are therefore supportive of the proposed rewrites.

**Formal “yes / no” responses to specific questions in the consultation are given in the attached pro forma response sheets. In addition, we would like to outline the reasoning behind those responses.**

### Prudential code

*Question 1 Do you agree that the requirement of the Prudential code to adopt CIPFA's Treasury Management Code is removed?*

Yes. We accept the point that local authorities are statutorily required to “have regard” to the Cipfa Treasury Management Code, so this requirement is superfluous in the Prudential code.

*Question 2 Do you agree that the Code confirm that the underlying principles apply to mayors and combined authorities and the group entity?*

Yes. This confirms the points we made in our response to the earlier consultation.

*Question 3 Do you agree that the impact of such structures is best dealt with*

**Submission**

*through the use of local indicators?*

Yes. We agree with the general move in the code away from applying generic indicators and generic calculations that are hard to interpret locally to specifying indicators that have local meaning. This is therefore especially relevant for these newer structures with diverse funding structures and responsibilities.

*Question 4 Do you agree with the requirement to consider explicitly separate ring-fenced funding streams and that this requirement removes the need to specify separate requirements for the HRA?*

Yes. This is an extension of the principle outlined in Question 3.

*Question 5 Do you agree with the proposal to introduce the requirement for a capital strategy to be formally reported?*

We welcome the thinking behind this. Local authorities' capital expenditure and investment decisions are taken in line with service objectives and with a full understanding of accumulated risk, in the full context of the long term finances of the authority. We believe this new capital strategy is a good way to demonstrate publicly that this is the case. Some of our members have expressed concerns that the requirement for this to be reported to full council adds to existing reporting of lengthy and complex financial documents, particularly at the point that the budget is being set, and flexibility over local reporting of this would be welcomed in order to achieve best outcomes locally.

*Question 6 Do you agree with a principles based approach and that the key matters to be taken into account are reflected in the proposed wording in the annex?*

Yes. The approach will improve the understanding and transparency over this.

*Question 7 Do you agree with the proposal to require the chief financial officer to report explicitly on the risks associated with the capital strategy?*

Yes. As with other statutory duties it is appropriate for the local authority to look to the Chief Finance Officer for advice on this.

Q8. *Do you agree with the proposal to delete the council tax indicator?*

Yes. The long term financial sustainability of local authorities relies on much more than the council tax. We therefore agree that this indicator is "slightly contrived". This fits with the general move away from generic calculation based indicators.

## **Treasury Management code**

*Question 1 Do you agree with the proposed indicator changes?*

Due consideration should be given to the views of individual local authorities on these technical changes.

*Question 2 Do you agree with the clarification that the Code should cover all investments held primarily for financial returns and the proposed amendments to the Code set out in the annex?*

Yes. This is an important change to the code. Local Authority investments

represent an important income stream. In 2016/17 in England they generated revenue of just over £1 billion (of which £700 million was English Councils), compared with £660 million in 2010/11 (of which £480 million was English Councils), an increase of over £300 million (£180 million for English councils). This is an important income for councils and an important way that many have protected local services from significant reductions in central government funding. It is therefore critical that that councils both retain the freedom to make appropriate investments and that the governance framework around this ensures that the public can be confident that they do so with due regard to accumulated risk, reward, prudence, sustainability and affordability. It is appropriate that this applies to all investments, not just those classified as “Treasury Management” so this is supported. However, the emphasis in the draft to consider “liquidity” in relation to non Treasury Management investments is, we believe, less appropriate as such investments are often by their nature not liquid and for these the importance of security should therefore be greater.

*Question 3 Do you agree with the proposal to allow some delegation of reporting to a committee / sub-committee in order to promote more active engagement and with the subsequent changes proposed to the Code.*

Yes. This should be a local decision as to what is appropriate.

*Question 4 Are there other comments you wish to make, including on the proposed substantive changes set out in the Annex?*

See above.