

# Local Government Association

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

April 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 LGA's Resources Board.

### General points

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.

### Response to specific questions in the consultation

#### Prudential code

*Question 1 Do you consider the four objectives of the Prudential Code are still relevant?*

These objectives cover key factors underpinning local authority capital and are still relevant to the way local authorities carry out their business. It is of clear relevance that capital expenditure is affordable, borrowing is prudent and sustainable, and that all relevant decisions are taken to professional standards in an open and accountable way.

*Question 2 Do you consider that the Prudential Code achieves these four objectives?*

The LGA believes that the code helps local authorities achieve these objectives

*Question 3 Do you consider that there are any areas which are not fully covered by these objectives?*

No. The objectives are comprehensive in terms of capital expenditure. The code could perhaps be made more explicit that these objectives also cover the Local

# Submission

authority's commercial and group activities (see answers to other questions)

*Question 4 Do you agree that the scope of the Prudential Code should be extended to cover mayoral combined authorities.*

The code is helpful in providing a framework for local authorities in assessing their capital programmes and affordability. When mayoral combined authorities are given borrowing powers they will almost certainly want to undertake an assessment similar to that followed by the prudential code, so it seems right that mayoral combined authorities should be able to follow the Prudential Code like other local authorities.

*Question 5 Do you foresee any practical implementation issues with extending the scope of the Prudential Code to cover mayoral combined authorities?*

No. The LGA does not see any issues with this.

*Question 6 Do you agree that, in principle, the scope of the Prudential Code should be extended to cover group entities to ensure that any associated risks are transparent and managed?*

In principle, it makes sense for group entities' activities, such as controlled or wholly owned or companies, to be covered in the assessment of their parent local authorities, as they will impact on the financial sustainability of the parent local authority

*Question 7 Which areas of the Prudential Code could best be applied to group entities and do you foresee any practical implementation issues with extending the scope of the Prudential Code to cover group entities?*

We believe the views of specific local authorities affected should be sought before a final decision is made.

*Q8. Commercialisation. How do you suggest the Prudential Code can be strengthened to encompass the risks associated with local authorities' increasing commercial activities?*

This is an important area. Local authorities already, under the current Prudential Code, take account of such risks when planning and financing their commercial activities. A possible way of strengthening the code would be to make it explicit that it is to cover these activities along with the local authority's other activities.

*Question 9 How do you suggest the strategic planning elements of the Prudential Code can be strengthened to demonstrate that capital investment is sustainable and that risks are appropriately identified?*

As stated above, the code is working well at present. The LGA is open to discussion about possible changes but consideration needs to be given to any increased burden from (for example) having to carry out more frequent assessments of prudential indicators (although many local authorities may already do this).

*Question 10 Please detail any suggestions for how the prudential indicators could be improved in order that the assurance they provide is enhanced, including details of any indicators which you consider no longer fully serve their intended purpose. Please explain your reasoning.*

We do not have any suggestions from improvements as we believe the current

indicators have worked well.

*Question 11 If you use local indicators, please provide the calculation and how you use the indicators(s).*

This question is not relevant to the LGA and we would refer you to the responses of individual local authorities.

*Question 12 How do you suggest that the Prudential Code can be strengthened to incorporate the concept of the liability benchmark*

The LGA does not have a view on how this could be inserted into the code.

*Question 13. Do you consider that the balance of indicators between the Prudential Code and Treasury Management in the Public Services: Guidance Notes for local Authorities is correct?*

The LGA believes the balance is right and that the current indicators have worked well.

### **Treasury Management code**

The specific questions in the consultation are all aimed at public service organisations and how they use the code. As an umbrella organisation, these questions are not directly applicable to the LGA. The LGA believes that the Treasury Management Code has worked well in providing a consistent governance framework for Treasury Management activities of local authorities and that therefore any changes to it should not alter this.