

The Prudential Code for Capital Finance in Local Authorities

Draft Code Consultation

Executive summary

CIPFA is pleased to publish the consultation on The Prudential Code for Capital Finance in Local Authorities (2021) (Prudential Code) following the initial consultation on proposed amendments. CIPFA is grateful to the sector for the healthy response rate, with over 100 responses provided for each code consultation to provide evidence and support for the revised Code.

As guardians of the Prudential Code, CIPFA will ensure it is strengthened. Following the significant risk taken to protect this system by a few local authorities with public funds, the proposals outlined in this consultation clearly address that borrowing for yield only is a risk to prudent investment. Without these strengthened provisions, local authorities risk further government intervention in the Prudential Framework.

CIPFA is committed to the Prudential Code regime to ensure local decision making is protected and that local authorities can deliver service innovation under a principles-based system. For the sector to continue to enjoy the freedoms of this system, the few outlying councils must end actions that either push the boundaries of the Prudential Code or intentionally misinterpret its provisions.

Following a review of each response we have received, the changes detailed in the code are summarised in the below table:

	Material revisions to the Prudential Code (CQ refers to consultation question numbers)	Prudential Code para
1	A new Objective for proportionate commercial investments (CQ 3&4)	1(f)
2	Include the legal status of the Code in Chapter 3 (CQ 9)	12
3	Reference to environmental sustainability in contents of Capital Strategy (CQ 5)	24
4	Capital Strategy to summarise investments into treasury management, service and commercial purposes	24
5	Greater clarity on commercial and service investments in the Capital Strategy, including limits, and compliance with requirement not to borrow to invest for return (CQ 10)	24
6	Explicit requirement to set and monitor the treasury management prudential indicators in the TM Code LA Guidance	43
7	Quarterly monitoring of prudential indicators as part of normal budget monitoring reports	44
8	Replace old paragraph 45 (no borrowing in advance) with new requirement not to borrow to invest primarily for financial return (CQ 1&2)	48-52
9	Authorities with commercial financial investments who expect to borrow: annual strategy to review options for exiting commercial investments	53
11	New prudential indicator for net income from commercial and service investments as % of net revenue stream (CQ 13)	81-85

12	Investment Prudential Indicators to be reported together with investment indicators under Statutory Investment Guidance	83
13	Included Heritage Assets in definition of CFR	90
14	New definition of Commercial Property	92
15	remove deduction for interest and investment income from definition of Financing Costs	94
16	Revised definition of Investments (to include non-financial assets held primarily for financial return)	95
17	Sub-definitions for treasury management, service and commercial investments (CQ 10)	95
18	Clarification that Net Revenue Stream excludes capital grants etc	96
19	Consequential changes and cross references relating to the above items	throughout
20	Moved some procedural paragraphs into the Governance chapter	throughout

This Consultation asks 17 questions on the material revisions to the code and the table cross references to the page numbers which have been amended. CIPFA thanks you for your time in responding to the Consultation on the Prudential Code.

The consultation closes on **16 November 2021**.

Question 1: Do you have any comments or observations on the amendments to the code relating to new Objective for proportionate commercial investments?

Question 2: Do you have any comments or observations on the amendments to the code relating to the inclusion the legal status of the Code in Chapter 3?

Question 3: Do you have any comments or observations on the amendments to the code relating to the reference to environmental sustainability in contents of Capital Strategy?

Question 4: Do you have any comments or observations on the amendments to the code relating to Capital Strategy's requirement to summarise investments into treasury management, service and commercial purposes?

Question 5: Do you have any comments or observations on the amendments to the code relating to the greater clarity on commercial and service investments in the Capital Strategy, including limits, and compliance with requirement not to borrow to invest for return?

Question 6: Do you have any comments or observations on the amendments to the code relating to the explicit requirement to set and monitor the treasury management prudential indicators in the TM Code LA Guidance?

Question 7: Do you have any comments or observations on the amendments to the code relating to the quarterly monitoring of prudential indicators as part of normal budget monitoring reports?

Question 8: Do you have any comments or observations on the amendments to the code relating to the revision of 'Paragraph 45'?

Question 9: Do you have any comments or observations on the amendments to the code relating to authorities with commercial financial investments who expect to borrow: annual strategy to review options for exiting commercial investments?

Question 10: Do you have any comments or observations on the amendments to the code relating to the new prudential indicator for net income from commercial and service investments as % of net revenue stream?

Question 11: Do you have any comments or observations on the amendments to the code relating to the Investment Prudential Indicators to be reported together with investment indicators under Statutory Investment Guidance?

Question 12: Do you have any comments or observations on the amendments to the code relating to inclusion of Heritage Assets in definition of CFR?

Question 13: Do you have any comments or observations on the amendments to the code relating to the new definition of Commercial Property?

Question 14: Do you have any comments or observations on the amendments to the code relating to the removal

of the deduction for interest and investment income from definition of Financing Costs?

Question 15: Do you have any comments or observations on the amendments to the code relating to the revised definition of Investments (to include non-financial assets held primarily for financial return)?

Question 16: Do you have any comments or observations on the amendments to the code relating to the clarification that Net Revenue Stream excludes capital grants and other items?

Question 17: Please detail any other comments on amendments to the code or further observations.