CIPFA The Chartered Institute of Public Finance & Accountancy

Statement from Rob Whiteman (CIPFA Chief Executive) and Richard Paver (Chair of the CIPFA Treasury and Capital Management Panel) on Borrowing in Advance of Need and Investments in Commercial Properties

CIPFA's Prudential and Treasury Management Codes, together with the statutory framework have been reviewed recently. The outcome of the reviews included modification to the controls and guidance related to increased commercialisation in the investment practices of local authorities.

Local authorities have continued to invest in commercial properties. In some cases these investments have been financed by borrowing.

Our statement reminds users of the Prudential Code that the Code sets out clearly that the prime policy objective of a local authority's treasury management investment activities is the security of funds, and that a local authority should avoid exposing public funds to unnecessary or unquantified risk.

Both the Prudential Code and the Statutory Guidance on Local Government Investments (3rd Edition) (Statutory Investment Guidance) issued by the Ministry for Housing, Communities and Local Government are very clear that local authorities *must not* borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Relevant statutory provisions also apply in the devolved administrations.

Local authority investment powers are for any purpose relevant to its functions and for the purposes of the prudent management of its financial affairs. As with all local authority powers they must be used reasonably and in accordance with an authority's primary function as a service provider.

CIPFA considers that where the scale of commercial investments including property are not proportionate to the resources of the authority, that this is unlikely to be consistent with the requirements of the Prudential Code and the Treasury Management Code.

CIPFA shares the concerns raised in relation to the recent continuation and (in a small number of cases) acceleration of the practice of borrowing to invest in commercial property. CIPFA will therefore issue more guidance and will make it clear that these investment approaches are not consistent with the requirements of fiscal sustainability, prudence and affordability.

CIPFA's guidance will also set out the substantial risks which are being incurred by such practices. In the meantime, local authorities are advised to have specific regard to the requirements to compile a capital strategy. Local authorities in England are also directed to have regard to the Statutory Investment Guidance the informal commentary to which cautions local authorities against:

- becoming dependent on commercial income;
- taking out too much debt relative to net service expenditure; and
- taking on debt to finance commercial investments.

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