CIPFA The Chartered Institute of Public Finance & Accountancy

HM Treasury Public Works Loans Board:

future lending terms consultation

Response from the Chartered Institute of Public Finance and Accountancy (CIPFA)

July 2020

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can found on the **CIPFA website**.

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executive summary

CIPFA recognises that the proposals to modify the Public Works Loans Board (PWLB) lending terms represents one of the most significant interventions by government since the inception of the Prudential Framework in April 2004. That rationale is consistent with recent changes to statutory guidance, *the Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017) (the Prudential Code) and is entirely consistent with CIPFA's messaging on this matter. Consequently, CIPFA welcomes these changes to PWLB lending terms in understanding that the underlying rationale for the measures is:

- firstly to prioritise the use of PWLB for investment in local services and local regeneration; and
- secondly, the related aim to dampen the extent to which local authorities undertake borrowing to invest in commercial property purely for commercial gain by effectively removing the PWLB as a borrowing route.

While recognising the extent of the change, CIPFA considers that there is unlikely to be one single measure that achieves these aims and that the PWLB proposal should form part of a series of further interventions that strengthen the Prudential Framework, but crucially safeguard the principles-based system.

CIPFA therefore offers its comments in the spirit of support to the specific proposals, but also takes the opportunity to set out what further measures could usefully be introduced. In doing so, CIPFA recognises the recommendation by the Public Accounts Committee in July 2020 that the Prudential Framework should be reviewed. Our interpretation of that recommendation is that there will be:

- review and revision of the Prudential Code to ensure that the Code and its objectives continue to support borrowing and capital investment in the modern era
- a wider review of the accompanying codes and statutory guidance, which could include consolidation of the suite of information that has been released since the inception of the framework in 2004
- somewhat fundamentally, revision to existing primary legislation that precludes local authorities from being able to adhere to the Prudential Code in part or in full. At present local authorities can choose not to follow the Code, while adherence is a mandatory requirement for CIPFA professional members. This significant change from 'have regard to' to 'must comply with' would remove this anomaly and align organisational and professional requirements.

In summary, CIPFA recognises the understandable focus on the consequences of borrowing for commercial purposes. This submission therefore supports a principles-based suite of lending terms which:

- remains consistent with the permissive nature of the Prudential Framework and empowers local authorities to carry on making local decisions
- can be responsive to a local area's service, regeneration and housing needs
- is proportionate, fit for purpose and can be administered with ease

introduction

This submission sets out where we offer our support to government to work towards finalising the terms of PWLB lending.

This submission is prepared against the background of the recent recommendations of the Public Accounts Committee Local Authority Investment in Commercial Property report. That report recommends a wider package of measures is required to ensure compliance with the Prudential Framework.

The proposal that PWLB lending terms should specifically cease providing loans for commercial investments represents a significant intervention into the Prudential Framework. CIPFA agrees that increased use of borrowing purely for commercial speculative activities does not represent proper use of public funds.

CIPFA has supported the objectives of the consultation by facilitating two roundtable events to enable discussion of the matter in more detail. These roundtables were attended by HM Treasury, representatives of treasurers' societies and practitioners from CIPFA's panels of experts including representation from CIPFA's Treasury and Capital Management Panel.

These roundtables provided a valid insight into issues faced by practitioners and have helped to shape CIPFA's response. We have included an **Appendix** to this consultation response which provides a summary of the feedback on the key themes of this consultation and useful background to this response.

While we support the principle of not borrowing solely for the purposes of commercial yield, CIPFA is also of the view that the consultation was issued in a pre-COVID-19 era.

Against the background of the current pandemic, it is feasible that the risks of undertaking commercial investment are currently being realised. It is likely local economic regeneration will become a central focus for governments and CIPFA believes local authorities will need to play a pivotal role in recovery. The pandemic is likely to dominate the UK economy until at least the medium term and local authority financial planning will need to consider this and other issues such as the impact of Brexit. Local authority medium-term financial plans will require support in the form of lending terms that do not impede a local authority's ability to undertake this vital role in society.

Local authorities are already resource constrained by years of reduced resources. With the added pressures caused by the pandemic local authorities will need revenue resources to support services. Local authorities may need to draw on reserves, so they are likely to need to free up the resources that have supported capital projects ie externalise 'internal borrowing', and their first point of call should be the PWLB. Affordable refinancing facilities will be essential to support the recovery and emergency activities, particularly if the pandemic continues longer term and a 'second wave' emerges later in 2020.

Where this relates to local authorities and the role of PWLB, it is therefore vital that the PWLB remains a source for finance where local authorities require liquidity and mitigates risk around solvency as an unintended consequence of addressing the issue of investing in assets solely for yield.

CIPFA is of the view that the PWLB should retain its position as a 'lender of last resort'. The resource issues outlined above have meant that some local authorities are at the point of, or close to, considering issuing Section 114 notices. In such challenging situations maintaining liquidity will be key to continuing delivering services. CIPFA would caution against changing the lending terms in such a way that risks the PWLB's position as the 'lender of last resort'. Restricting a Local Authority's ability to access resources at such a time may severely limit its ability to maintain vital services to the public.

We understand that government is interested in seeking the best way of achieving its objectives outlined in the consultation paper in a way which does not substantially increase the reporting burden of local authorities. We suggest an alternative might be to strengthen the statutory force of the Prudential Code so that local authorities should be required to comply with the code rather than 'have regard to' it.

This means that at present, local authorities can choose not to follow the Code. Compliance is, however, a mandatory requirement for CIPFA's finance professionals. Statutorily backed compliance with the principles of the Prudential Code with an emphasis on sustainability, prudence and affordability would strengthen the framework overall.

The Public Accounts Committee (PAC) and National Audit Office (NAO) reports on local authority investment in commercial property both recommend that MHCLG should improve the quality of data it has on commercial property investment and we understand that this is being taken forward by the Department. We would recommend that the final proposals for the lending terms do not lead to local authorities having to provide two sets of similar information to government.

CIPFA would note that as guardian of the Prudential Code as a part of the Prudential Framework CIPFA has substantial expertise and understanding of local government finance. At a number of points in the answers to the questions that follow we have indicated our willingness to meet with HM Treasury and other government colleagues to develop aspects of the proposals. CIPFA will also support our members who are Section 151 (s151) officers in implementing any final proposals. We will be pleased to work with government to discuss any or all of these issues.

Finally, although the questions are directed specifically at local authorities, CIPFA has provided responses as appropriate. Inevitably, there are a number of questions which local authorities alone can answer, in which cases we have recorded 'N/A'.

our comments and responses

Q1: Do you use the PWLB to support treasury management, for example by refinancing existing debt, or to externalise internal borrowing?

CIPFA is aware of the trend towards increasing PWLB borrowing and considers that it is an important part of local authority funding alongside support from capital grants and capital receipts.

CIPFA is of the view that until relatively recently, capital programmes were also supported by internal borrowing (ie applying surplus cash balances arising from other activity to fund cash outflows for capital purposes to avoid external borrowing).

However, local authorities have reduced availability of capital receipts and the running down of reserves to meet pressures on revenue resources as a result of the pandemic has reduced surplus cash balances.

CIPFA is therefore of the view that local authorities will need to externalise ‘internal borrowing’, increasingly including both PWLB and other forms of external borrowing.

Q2: How far do the lending terms of the PWLB affect the terms offered by private lenders?

CIPFA is of the view that the current lending terms of a margin of 180 basis points over corresponding gilts opens the opportunity for private lenders to offer competitive terms to local authorities. This can risk distorting the lending market, as a margin of 180 basis points gives significant room for manoeuvre.

This can potentially have the effect of raising benchmark prices from private sector lenders and in turn, incurring greater costs for local authorities.

This may expose local authorities to contractual or lending terms, which might seem attractive but carry risk if they include complex embedded derivatives or if they are index linked to markets that may seem attractive compared to PWLB terms but may not provide value for money over the long term.

CIPFA is of the view that the flexibility and ease of access to finance with PWLB means that this remains attractive to local authorities.

Q3: Are there any other effects or uses of the PWLB beyond those described here?

The PWLB facility provides loans to local authorities, mainly for capital projects. It is a long-term source of finance and therefore should be used to finance assets where service benefits are realised over several years.

CIPFA understands that local authorities do not normally use PWLB for the financing of short-term day-to-day cash flows, where cheaper short-term finance such as short-term bank loans or inter-authority loans market is available.

Q4: Do you think the proposal described in paragraphs 1.24 to 1.28 would be effective in achieving the aim set out in paragraph 1.22?

CIPFA's Prudential Code is 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" (paragraph 45).

CIPFA supports the objective of the proposals to "develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield…" and to ensure that projects to support service delivery etc can continue under the framework.

CIPFA would note that it is important to ensure that the terms used are clear and easily understood to avoid any unintended consequences and that the primary purpose of a borrowing decision is determined.

For example, local authorities will for various – mostly regeneration – purposes and as a part of effective asset management need to invest in assets that may have a commercial yield, but that commercial yield is necessary to fund other parts of a wider project (ie the yield may be recycled) or the objective of urban regeneration projects might be for acquisitions/projects to be self-sustaining and promote economic growth. Although the objective of these projects might be primarily to generate yield, this would not be for the purposes of easing pressure on revenue budgets but for the securing of sustainable capital projects that should fit with regeneration objectives. We describe other aspects of effective asset management in appendix A.

CIPFA offers support to HMT in developing guidance to assist this. We believe the right direction for local authorities is to focus on delivering core strategic and service objectives following the principles of affordability, sustainability and prudence in the Prudential Code. CIPFA agrees that local authorities will normally manage their capital financing requirements on a consolidated basis.

Q5: Do you agree with the conclusion in paragraph 1.26 that local authorities finance their capital requirement in the round, and that it is not therefore possible to meaningfully link PWLB borrowing to specific spending?

This may also have allowed for refinancing or the externalisation of 'internal borrowing'. However, this is not necessarily the case.

In practical terms, most authorities will make decisions about individual projects in consideration of the costs of capital based on a deemed source of finance for that project.

Therefore, CIPFA generally considers that financing is considered on a consolidated basis, but local authorities will be able to estimate the financing of individual projects.

Q6: If you answered ‘no’ to Question 5, do you have an alternative suggestion?

See response to Question 5 above.

Q7: Do you agree that the approach set out in paragraph 1.27 is a reasonable approach to the situation in which a local authority borrowed from the PWLB and was subsequently found to have pursued a debt-for-yield scheme despite the assurances given through the application process? If not, how would you recommend that the government addresses this issue?

CIPFA recognises the proposals indicate that the repayment requirements outlined in paragraphs 1.26 and 1.27 would be ‘highly unlikely’ to occur. However, we are of the view that the requirement to repay the loans for the financial year in which a debt for yield scheme were discovered would be overly punitive.

CIPFA does not consider this to be a proportionate response, as this would impact the financing of all the other schemes being financed in the year. This is likely to impact adversely on the liquidity and financing issues for the local authority in a period where resources are already constrained, and local authorities are likely to be putting their recovery plans in place. Any remedy for a breach of the terms should not have an impact on regeneration or other service delivery schemes.

We would recommend that the repayment should be limited to an estimate of the borrowing for the scheme in question. This is also an important issue because if local authorities are prohibited from borrowing from PWLB this loses PWLB’s role of ‘lender of last resort’, which has an important function in local government finance and will be increasingly important where authorities have had to deal with the sometimes extreme impact of the pandemic on resources.

CIPFA is of the view that local authorities operating under the Prudential Framework will be expected to act transparently when proposing and approving capital programmes. The Prudential Code’s requirements to determine its capital strategy ensures that for most local authorities its capital programme is prudent, sustainable and affordable, and is able to deliver service objectives that should provide an effective base for decision making. On the back of this intervention and the PAC report outcome CIPFA is committed to reviewing the Prudential Framework. An essential element of this will be a specific review of the Prudential Code. CIPFA is committed to that review and expects to commence work in the autumn of 2020 with a view to developing a revised Code in late 2021 or early 2022.

Currently however, CIPFA’s publication on Prudential Property Investment provides clear guidance that local authorities should not invest in commercial properties purely for yield or other speculative purposes. Therefore we would anticipate that local authority officers and members should be fully aware that borrowing from the PWLB or other forms of finance should not be used for such purposes so we would agree that such cases should be rare, though as with all systems there may be cases where such activities may inadvertently take place.

Q8: Do you think that the proposal set out in paragraphs 1.24 to 1.28 would limit your ability to effectively manage your existing investment portfolio in a year in which you still wish to access PWLB borrowing for 'accepted' purposes?

Local authorities that have followed the Prudential Framework should not be particularly affected by the proposals set out in paragraphs 1.24 to 1.28 with the proviso that the definition of properties acquired for yield is clear and the process for providing information on their capital programmes is not overly onerous.

Q9: Do you have a view on when in the calendar or financial year this new system should be introduced?

CIPFA would recommend the proposals where PWLB interest certainty rate discount for service delivery investments should be introduced as soon as possible.

Councils are currently experiencing significant financial pressures exacerbated greatly by the COVID-19 pandemic. Access to affordable borrowing as soon as possible will alleviate this pressure and contribute to national policy objectives. However, a transition period may be needed for new arrangements.

The extension of the certainty rate to the HRA has proved successful in the period when this consultation began. CIPFA proposes this is immediately extended to single service bodies such as police, fire and rescue and waste.

HM Treasury colleagues will be aware that CIPFA has previously advised all CFOs to operate these new arrangements with immediate effect.

When the proposed new terms follow the consultation, we believe that they will apply to both financing and refinancing, and so councils should avoid the risks that could result if they borrowed from the PWLB for commercial purposes during the transition.

Q10: Do you agree with the proposal in paragraph 1.29 that these new lending terms should apply uniformly to larger local authorities in England, Scotland, and Wales?

Q11: Do you agree with the assessment in paragraph 1.30 that it is not necessary to change the arrangement for smaller authorities?

In response to Questions 10 and 11 CIPFA is of the view that terms should be consistent and sees no current reasoning for differing lending terms between England, Wales and Scotland.

However, we would refer HM Treasury to our response relating to single service bodies in Question 9.

Q12: The government proposes that you submit your plans for the year or years ahead. Over what period could you provide meaningful plans?

Local authority capital programmes are usually set over a three-to-five-year time horizon. Information over this time period would be reasonable and consistent with CIPFA's Financial Management Code, which encourages longer-term financial planning.

Local authorities may be able to provide more detailed commentary on the timescales they use to produce, manage and monitor their capital programmes. CIPFA is of the view that the submission of information should align with local authority capital programmes.

Q13: This proposal would also require a short description of the projects in each spending area as set out in paragraph 1.34 to improve the government's understanding of how the PWLB is used, but without putting an unreasonable reporting requirement on local authorities. What level of granularity would give this understanding? For example: projects covering 75% of spending? Anything over £5m per year? Etc.

CIPFA would note that local authorities vary both in size and nature. We would recommend that any information requested on the capital programmes of local authorities is requested on a proportionate basis.

A balance will need to be struck between the information requirement placed upon local authorities and the administrative task on government.

CIPFA recommends a proportionate approach should be used and any de minimis amounts avoided.

Q14: Do you agree with the approach in paragraph 1.38 that the s151 officer of the applicant authority should assess if the capital plan is eligible for PWLB access, or would it be more suitable for another body to do this?

As the s151 officer has fiduciary responsibility over the Council's financial affairs and the Prudential Code specifies that the CFO is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration and for establishing procedures to monitor performance, it is appropriate that this officer is key in determining that all the capital programmes and individual projects are compliant with the PWLB lending terms, including ensuring that projects are not purely for yield purposes.

Q15: Would you as a s151 officer feel confident categorising spending into the categories proposed here? If not, what would you propose instead?

As a statutory officer, s151 officers should have a level of experience, expertise and knowledge to comfortably categorise and assess their capital programmes under categories that are clear and unambiguous and which do not need substantial interpretation.

CIPFA would also consider that it is important that the information requirements for the proposed system are proportionate in accordance with our previous responses. CIPFA would anticipate supporting s151 officers in meeting their professional duties in this regard and on the reporting requirements when they are finalised.

At one of the roundtables (as indicated in the introduction) HM Treasury outlined that assets – built or acquired from a policy objective – with a yield are likely to meet the PWLB terms for borrowing and CIPFA can largely see this from the characteristics outlined in paragraph 1.44 as the intent.

CIPFA is of the view that particularly as a result of the pandemic, regeneration characteristics and objectives are likely to be wider than those outlined in paragraph 1.44. CIPFA is of the view that instead of focusing on characteristics the criteria for such projects should be principles based. These principles will reflect that policy objective but will be more flexible and will be able to support innovative approaches (as local authorities will have to focus on regeneration) and promote recovery post COVID-19.

CIPFA would be happy to discuss development of these principles in more detail with you.

CIPFA would note that the aim of many regeneration schemes would be to ensure that a town or city centre, economic development parks or units etc are eventually self-sufficient and generate a commercial yield to support the locality and economic development in the area for the long term. Again, this may lead to cases encroaching on the criteria in paragraph 1.46 despite there being a policy objective for regeneration. A principles-based approach should ensure that this is avoided.

We also think that the externalisation of 'internal borrowing' is an appropriate function of local authority financial management but consider that this is a separate function from refinancing. We describe these functions in more detail in **Appendix B**.

Q16: Would these proposals affect the ability of local authorities to pursue innovative financing schemes in service delivery, housing, or regeneration?

CIPFA is of the view that if a local authority is complying with the principles of the Prudential Code then there are no barriers within these proposals to a local authority pursuing innovative approaches to supporting their localities' and local authorities' placemaking roles or responding to issues such as sustainability.

As indicated in our response to Question 15, CIPFA is of the view that s151 officers are able to make professional assessment on their capital programmes to ensure that they exclude those property acquisitions that are primarily for yield. CIPFA is of the view that a proportionate, principles-based system that aligns with the Prudential Framework will ensure that such activity is not included.

Should the terms impact upon an authority's ability to refinance through the PWLB this could significantly affect local authorities' ability to pursue core council objectives.

Refinancing and restructuring are two distinct activities. To clarify the differences between the two activities we have included a brief definition of refinancing and restructuring in **Appendix B**.

Q17: Are there specific examples of out-of-area capital spending for service delivery, housing, or regeneration that support policy aims?

CIPFA is of the view that there will be examples of such projects.

While local authorities will provide numerous examples, CIPFA would suggest that out-of-area capital spending for service delivery, housing or regeneration may take the form of both formal and informal partnerships, including local enterprise partnerships and combined authorities.

CIPFA suggests that if an investment is out-of-area, there could usefully be a clear and direct connection as part of a local enterprise partnership or collaborative arrangement with a clear link to demonstrate it supports the regeneration or strategic objective of the local authority.

Q18: Would these proposals affect your ability to refinance existing debt?

CIPFA understands that in most cases for local authorities the restructuring of existing PWLB debt is limited due to the prohibitive nature of the repayment requirements. The proposals do not suggest any changes to this. However, the proposals should not impact on the refinancing of existing debt.

Q19: Would these proposals affect your ability to undertake normal treasury management strategies? If so, how, and how might this be avoided?

CIPFA would note that if an authority inadvertently breached the lending terms and is deemed to have invested in assets primarily for yield, the current proposals would have a substantial impact on treasury management strategies.

For example, if the terms that stop councils accessing PWLB are applied in practice this would have a significant impact on its ability to invest in services.

Additionally, any system that is overly bureaucratic or not proportionate may impact on treasury management processes.

Appendix A contains feedback from practitioners that may be useful.

Q20: Do you have any views about the implications of these proposed changes for people with protected characteristics as defined in Section 149 of the Equality Act 2010? What evidence do you have on these matters?

N/A

Q21: Is there anything that could be done to mitigate any impact identified?

N/A

Q22: Is there anything else you would like to add on this issue?

N/A

Q23: Why did minimum revenue provision (MRP) fall as debt rose? Was the 2018/19 increase a one-off, or do you expect MRP to continue growing?

N/A

Q24: Why do you think the average loan length is increasing?

N/A

Q25: What impact would changes to the maximum available length of loan, and/or the existing offer of repayment methods, have on your finances?

N/A

Q26: What are the benefits of the existing two-day turnaround time for PWLB loans?

Q27: What would the impact be of increasing the time between loan application and advance – for example, to three or five working days?

Q28: How long could the turnaround time be for a PWLB loan before the PWLB becomes less attractive?

In response to Questions 26 to 28, CIPFA understands that this is still a very short arrangement time for a source of borrowing and provides more certainty for the cash flows of an authority.

Q29: Do you have any PWLB debt that you would like to repay early? If so, what is the total value of this debt and at what price/discount would this be viable?

CIPFA understands that many authorities carry substantial amounts of borrowing in their portfolios, which incurs significant revenue pressures from loans agreed historically.

These are well above interest rate benchmarks. However, due to the current early repayment premiums the option of restructuring is unlikely to represent value for money.

Q30: How much PWLB debt would you transfer to other local authorities if you could?

N/A

Q31: If novation were permitted, under what circumstances would you take on debt from another local authorities rather than taking on new borrowing from the PWLB or another source?

N/A

Q32: Are there any other barriers to discharging unwanted PWLB debt?

N/A

Q33: Should HM Treasury introduce a process by which borrowing by an individual authority might be slowed or stopped without affecting PWLB access or terms for other local authorities?

Intervention could be through strengthening the Prudential Code and reviewing this process to reinstate the liability benchmark.

A potential solution to understanding a local authority's borrowing need, which may also support the government's information needs in relation to their ability to slow or stop local authorities exhausting the resources of the PWLB and breaching the statutory limit, is to assess PWLB borrowing for an authority against its liability benchmark, which is calculated based on their need to finance previous capital expenditure.

A local authority's liability benchmark is used to assess borrowing levels and the profile of its debt portfolio. It is based on its future cash flows and their forecast MRP for repayment of debt in the future.

Therefore, in simple terms, if debt exceeds the liability benchmark the authority has a cash surplus and is holding on deposit. Therefore, a policy to assess PWLB borrowing to this benchmark could be useful for discussions with the authority about its need to borrow.

Appendix B contains more detail on liability benchmarks.

Q34: Under what circumstances should this process be applied?

Please see our response to Question 33.

Q35: Do you use Debt Management Account Deposit Facility (DMADF) currently, and if so, why?

CIPFA understands local authorities use DMADF as a secure place for investing excess cash.

Q36: What would make you increase your use of DMADF?

N/A

Q37: Does your local authority actively consider borrowing from alternative lenders to finance capital investment?

N/A

Q38: If you answered 'yes' to Question 37, what are the reasons that would inform your choice to borrow from other providers?

N/A

Q39: What are the main reasons that you borrow from other local

authorities and how do these reasons differ to borrowing from the PWLB?

CIPFA understands the inter-authority borrowing market is primarily used for short-term finance to manage day-to-day cash flows.

This can provide a cost-effective option where risk is relatively low while also supporting the sector.

Q40: Following this, is there a case for changing the name of the PWLB?

PWLB is a recognised term in the industry and CIPFA sees no benefit from changing it.

APPENDIX A

common themes from CIPFA roundtables

Do you think the proposal described in paragraphs 1.24 to 1.28 would be able to achieve the aim set out in paragraph 1.22? And do you think that the proposal set out in paragraphs 1.24 to 1.28 would limit your ability to effectively manage your existing investment portfolio in a year in which you still wish to access PWLB borrowing for 'accepted' purposes?

Feedback

1. Workshop participants enquired whether one project in a capital programme being a commercial asset held primarily for yield would mean that the authority would not be able to access finance via PWLB for its whole programme. HM Treasury confirmed this would be the case.

2. Several workshop participants raised the issue of clarity of definitions and terms. To assist with this issue we have described some key terms in **Appendix B**.

3. Concerns were raised by s151 officers over the subjectivity of this decision-making process and the risk that capital programmes would not be deliverable if they did not meet the criteria of the lending terms. It was felt that the possibility of government disagreeing with the assessment of the s151 officer/CFO could be deemed to place pressure on those officers.

4. Local authorities, especially urban ones, have for many years held commercial property portfolios, which have arisen over time from appropriate regeneration or service delivery and now continue to earn an income stream. For major cities this can exceed £10m rent per annum. These portfolios are actively managed, with underperforming assets being sold and the proceeds reinvested into more suitable commercial properties to maintain or grow existing income. Views were expressed that the consultation would prevent this reinvestment activity because all new purchases are prevented, however financed. This would result in obsolescent portfolios which could not be managed in accordance with good asset management and portfolio theory.

5. The workshop participants raised concerns over the PWLB's role as 'lender of last resort' which is fundamental to a local authority's solvency and market credit ratings. This is a key underpinning of local authority finance due to the security provided by access to PWLB finance. If an authority is prohibited from access to capital finance the workshop raised concerns about what might happen when due to unforeseen shocks and events and/or when resources are severely restricted local authorities would not be able to access finances from PWLB.

Would you as a s151 officer feel confident categorising spending into the categories proposed here? If not, what would you propose instead? The workshop participants enquired whether internal borrowing should be included in the definition of refinancing.

Feedback

6. CIPFA does not think that this is the case as these are two very different functions, although they are both part of the financial and treasury management activities of the authority. We suggest the lending terms should separately accommodate the externalisation of internal borrowing.

7. There was agreement that capital programmes were dynamic, and their financing regularly changed substantially throughout the year. This might be when different sources of funding – eg grant funding – became available, when developers proposed different projects or because the nature of capital projects meant that there was regular slippage in scheme expenditure. This meant that the need for financing changed to manage financing needs.

This proposal would also require a short description of the projects in each spending area as set out in paragraph 1.34 to improve the government's understanding of how the PWLB is used, but without putting an unreasonable reporting requirement on local authorities. What level of granularity would give this understanding? For example: projects covering 75% of spending? Anything over £5m per year?

Feedback

8. Concerns were raised by the representatives from larger authorities about the use of a de minimus level or information requests that were not proportionate and would thus be overly onerous to complete.

9. It would need to cover the life of the project rather than just drawdowns of financing to capture the totality of borrowing requirement for the project rather than one specific year where the authority intends to access PWLB borrowing.

APPENDIX B

description of key terms

Term	Definition
Borrowing in advance of need – Clarification	CIPFA would caution against the comment in paragraphs 1.16 and 1.25 which states that local authorities should not borrow in advance of need. This is not the point of the commentary in paragraph 45 of the Prudential Code. It will sometimes be both necessary and/or prudent to borrow in advance of need, for example, to establish finances for a new scheme or to limit risk of increasing interest rates for schemes which are already planned.
Deferred financing (externalising internal borrowing)	The taking out of new loans to finance borrowing that has previously been financed by internal borrowing.
Internal borrowing	Applying surplus cash balances arising from other activity to fund cash outflows for capital purposes to avoid external borrowing.
Refinancing	In local authorities refinancing takes place when a loan has been fully repaid and is replaced with a new loan.
Refinancing risk	The risk that maturing borrowing, capital, project or partnership finance cannot be refinanced on terms that reflect the provisions made by the authority ie both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.
Restructuring	To repay/extinguish a loan to be replaced with a loan. This new loan may offer more beneficial interest rates. Alternatively, it may be necessary for a local authority to reschedule repayment profiles of its loan. The intention of restructuring is that the benefits of change outweigh the costs (ie the premiums) and other costs to repay the original loan over the life of the loan. An example of a debt restructuring can be found in **CIPFA Bulletin 03 Closure of the 2018/19 Financial Statements.**

Term	Definition
Liability benchmark	A measure of an authority's existing (and committed) loans portfolio that is compared with its forecast loan needs. This benchmark should enable the authority to understand and manage its exposure to treasury risks. A liability benchmark is based on an authority's forecast MRP, which drives the future rate of debt repayment. The liability benchmark can be expressed in two ways: ■ a net loans benchmark (ie the year-end balances) ■ a maturity profile benchmark (ie the in-year movement). Using the benchmark maturity profile or net loans benchmark enables the authority to minimise its treasury risks by matching its maturity profile to the liability benchmark. If loan maturities match MRP then (all other things being equal) the authority will have neither a cash deficit (creating a liquidity or financing risk), nor a cash surplus (creating an unnecessary credit risk).
Liquidity risk	The risk that a financial or other asset cannot be converted to cash at the market price. Ineffective management of liquidity risks creates additional unbudgeted costs, and the authority's operational or service objectives are likley to be thereby compromised.

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