

The Prudential Code for Capital Finance in Local Authorities  
and

Treasury Management in the Public Services: Code of Practice  
and Cross-Sectoral Guidance Notes

Consultation

07 August 2025

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## Introduction

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) was introduced in 2004. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003 and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011. The Prudential Code was developed as a professional code of practice to support local strategic planning, asset management planning and proper option appraisal for local authorities when developing their programmes.

Key objectives of the Prudential Code are to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent and sustainable, that treasury management decisions are taken in accordance with good professional practice and that local strategic planning, asset management planning and proper option appraisal are supported.

The first version of the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) was published in 2001 with a recommended start date of 1 April 2002. While the Treasury Management Code covers all public services, it is primarily designed for the use of local authorities (including police and fire and rescue authorities), providers of social housing, higher and further education institutions and the NHS. Local authorities in England, Scotland and Wales are required to "have regard" to the Treasury Management Code.

The Treasury Management Code defines treasury management as follows:

*The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

Treasury management is therefore a vital function of a local authority – it ensures an organisation's cash values are maintained and it ensures that local authorities understand their cash flows and have the monies available to meet situations that arise. The recommendations made in the Treasury Management Code provide a basis for all public service organisations to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

The Prudential Code and Treasury Management Code (the Codes) were updated in 2021 following significant growth in commercial activity by a few outlying local authorities. The Prudential Code update introduced changes to the capital strategy, prudential indicators and investment reporting and a requirement that an authority must not borrow to invest primarily for financial return. Updates to the Treasury Management Code included strengthened requirements for skills and training and for investments that are not specifically for treasury management purposes. It also introduced the liability benchmark.

CIPFA intends to review both of the Codes to ensure that they remain fit for purpose and that the changes introduced in 2021 have sufficiently reduced the risk arising from the growth in commercial activity. This consultation is the first of two consultations and seeks views on a principles basis as to areas where the Codes can be strengthened or amended. More detail on proposed changes will follow in the second consultation.

CIPFA welcomes your comments and responses on these proposals and thanks the sector for their time in responding. The consultation is open for response for 10 weeks. The closing date for responses is 17 October 2025.

## Consultation issues and questions

### Structure and coverage of the Codes and guidance

The Prudential Code, Treasury Management Code, the respective guidance notes and guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) work together to underpin the system of capital finance and treasury management for authorities. Authorities are required by regulation to have regard to the Prudential Code and Treasury Management Code when carrying out their duties. Each part of the system has its own specific objectives and recommendations. These are typically covered by various documents produced by authorities, which can include a capital strategy, investment strategy, treasury management strategy, treasury management policies and minimum revenue provision policy.

CIPFA is interested in views on whether the role of the Prudential Code and Treasury Management Code in this system is sufficiently clear.

CIPFA is also keen to have views on whether changes to the structure and coverage of each of the Codes and their accompanying guidance notes are needed to assist practitioners with their application of the Codes and those charged with decision making and governance with scrutiny of the outputs.

As an example, should all prudential indicators, including the treasury management prudential indicators be in the Prudential Code and accompanying guidance notes, as opposed to the Treasury Management Code? Should requirements for commercial and service investments sit outside the Treasury Management Code?

**Question 1:** Is a change in the structure and coverage of the Prudential Code, Treasury Management Code and/or the accompanying guidance needed to improve their application and the achievement of the Codes' objectives? If so, what changes are required?

The requirement to "have regard to" codes and guidance has been clarified in *Capital finance: guidance on minimum revenue provision (5th edition)*, issued by MHCLG:

*"Have regard to" has a specific meaning that local authorities should comply with the guidance unless, having duly considered the guidance, there is justifiable reason to depart from it, any departure from the guidance should be documented and approved via the authority's usual governance processes.*

There is no such clarification currently in the Prudential Code or Treasury Management Code.

**Question 2:** Do you think that "have regard to" should be clearly defined in the Prudential Code and/or Treasury Management Code?

## Commercial and service investments and proportionality

Changes made to the Prudential and Treasury Management Codes in 2021 were driven largely by concerns about the growth of commercial activity in the sector.

Proportionality was added to the objectives within the Prudential Code in 2021. *Statutory guidance on local government investments (3rd edition)* issued by MHCLG states that an authority's investment strategy "should detail the extent to which funding expenditure to meet the service delivery objectives and/or place making role of that local authority is dependent on achieving the expected net profit." It also states that the strategy "should include quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions."

Neither the MHCLG Investment Guidance nor the Prudential Code include any prescribed indicators for proportionality. CIPFA is interested in views on whether prescribed indicators in the Prudential Code would assist authorities with scrutiny and decision-making on its non-treasury investments or monitoring of the ongoing viability of existing non-treasury investments.

**Question 3:** Should prescribed indicators be introduced to measure proportionality? If so, what would you suggest they should be?

A significant number of authorities have made investments into subsidiaries and joint venture companies, either for commercial purposes or to deliver regeneration in their local area. Eight authorities have issued Section 114 notices in recent years, with at least two of these being attributed to investments in group entities.

CIPFA is interested in views on whether the Prudential Code can and should do more to ensure clear understanding of investment in group structures and ongoing monitoring of existing investments.

**Question 4:** Should the Prudential Code include governance guidelines concerning the liabilities arising from group structures, particularly with regard to wholly owned subsidiaries and development corporations? If so, what would you suggest?

The Prudential Code states that authorities should have a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. Under the code, the capital strategy should have regard to:

- (i) capital expenditure
- (ii) debt, borrowing, investments and treasury management
- (iii) investments for service or commercial purposes
- (iv) other long-term liabilities
- (v) knowledge and skills.

CIPFA is interested in views on whether the areas that authorities should have regard to within their capital strategies should be expanded to include explicit ongoing considerations for service and commercial investments such as:

- how performance will be monitored and if necessary, addressed

- that potential exit strategies have been considered (not necessarily disclosed for commercial reasons).

**Question 5:** Should the “Determining the Capital Strategy” commentary in the Prudential Code include additional requirements for Investments for a Service or Commercial Purpose relating to ongoing performance and monitoring? If so, what do you suggest should be included?

CIPFA is interested in views on any other areas where the Codes need to be amended to improve transparency, governance and scrutiny or decision making in relation to service and commercial investments.

**Question 6:** Are there any other amendments to the Codes for service and commercial investments that are needed to improve transparency, governance and scrutiny or decision making? If so, what would they be?

## Liability benchmark

In 2021 the liability benchmark was introduced as a treasury management prudential indicator and detailed in CIPFA's Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police and Crime Commissioners and Fire and Rescue Authorities.

The liability benchmark is intended to be presented as a chart of four balances:

- existing loan debt outstanding
- loans CFR
- net loans requirement
- liability benchmark (or gross loans requirement).

The purpose of the liability benchmark is to compare an authority's existing loans outstanding against its future need for loan debt in order to assist with the effective management of the debt maturity profile and risks.

CIPFA is interested in feedback on the implementation of the liability benchmark and its effectiveness in managing borrowing risk. Views on whether the benchmark has been calculated on a consistent basis across the sector would be welcomed and whether further guidance is required, for example, clarification that it should reflect current loans taken and committed and that future projections just reflect the current capital programme.

**Question 7:** Should the Liability Benchmark be further defined and explained, to eliminate, as far as possible any scope for authorities to calculate or interpret it differently? If so, how?

The liability benchmark should reflect an authority's current capital programme, in order to determine its affordability. The 2021 revision of the Codes suggested that the operational boundary be based on the liability benchmark.

**Question 8:** Should the expectation that the liability benchmark should reflect an authority's current capital programme be made more explicit?

**Question 9:** Should the operational boundary be removed as an indicator, with the liability benchmark in its place, as a measure of how much debt a local authority would usually need under normal circumstances?



## Prudential indicators

The Codes include a number of indicators that are designed to demonstrate that an authority's capital plans are affordable, sustainable, prudent and proportionate and that treasury management risks are effectively managed.

The indicators include the "authorised limit", which is a statutory measure that local authorities are required to set as a limit for the level of borrowing that they can afford. The issuing of some Section 114 notices in recent years has highlighted the complexities in determining what is truly affordable, taking into account risk and the possibility of unexpected events and outcomes in relation to non-treasury investments.

In practice, we observe that the authorised limit is often based on projections of the maximum capital financing requirement plus a generous margin, with little evidence of consideration taken as to whether this level of borrowing is affordable in the long term. This would appear to not be in accordance with the guiding principle of this measure.

CIPFA is interested in views on whether further guidance would be useful for authorities in determining their affordable borrowing limit. For example, should it be explained how the "authorised limit" can be formulated from projections of the authority's resources available to finance capital expenditure, as per the medium-term financial strategy and other budget planning documents?

**Question 10:** Does the Prudential Code make it sufficiently clear that the authorised limit must be a true indication of what is actually affordable?

**Question 11:** If the answer to Q10 is "No", should the Prudential Code include further guidance on formulating and determining the authorised limit so that it's a truer indication of what is affordable? If so, what would you suggest be included?

The Codes state that some of the prudential indicators should be calculated for the forthcoming financial year and at least the following two financial years. The Prudential Code is clear that prudential indicators are not designed to be comparative performance indicators. However, trends in indicators are useful information and can aid effective scrutiny of capital investment decisions.

Therefore, CIPFA is interested in views on whether additional previous years' indicators should be included to identify trends.

**Question 12:** Should the indicators for capital expenditure, the capital financing requirement, financing costs vs the net revenue stream and service and commercial income vs the net revenue stream include the two previous years?

The prudential indicator for the maturity structure of borrowing includes the following ranges for debt maturing in each period:

- under 12 months
- 12 months and within 24 months
- 24 months and within five years
- five years and within ten years
- ten years and above.

Guidance suggests that where authorities have most of their borrowing in the 'ten years and above' maturity period they should break down the period in excess of ten years into several ranges, eg 10–20 years, 20–30 years etc.

CIPFA is interested in views on whether this indicator should be updated to include all appropriate 10-year bands.

**Question 13:** Should the prudential indicator for the maturity structure of borrowing require all appropriate 10-year bands for when the authority had debt maturing (ie 10–20 years, 20–30 years etc)?

## Further guidance

CIPFA would be interested to hear respondents' views on whether there are any areas within the Prudential Code and/or Treasury Management Code where additional guidance or improvements to the Codes are needed to better meet the aims and objectives of the Codes.

**Question 14:** Are there any areas in the Prudential Code and/or Treasury Management Code where additional guidance or improvements are needed? Please support your answer by giving details of the amendments you would suggest.