**CIPFA: The Prudential Code for Capital Finance in Local Authorities - Consultation**

**Society of District Council Treasurers (SDCT) Response**

**Overview**

Local authorities **and district councils in particular**, require new and innovative income streams to enable them to continue to deliver statutory services to the high standard required by the public.

Many district councils no longer receive any RSG with negative RSG still a possibility in one form or another. Business Rates Retention remains uncertain for the short term and even more so in the long term. Council tax referendum limits continue to restrict the ability to obtain extra income and many service income streams (e.g. planning) are restricted by centrally set fees or increases. Many authorities have reviewed how their services are delivered and realigned services, however they can only reduce costs so far. This has meant authorities have looked to other income streams which are a necessity if district councils are to continue to operate successfully and property investment is one area that many have gone into. Furthermore, it should be noted that the impact of COVID-19 has demonstrated the vulnerability of more traditional income streams, such as car parking, and those authorities that have a varied portfolio of income generating sources have shown better resilience over the last 12 months. Other options include doing nothing which inevitably leads to cutting services. Such an approach is not sustainable in the long term and clearly reduces the level of services provided by the sector.

It should be remembered that local authorities have invested in property for many years, this is not new to the Sector. However, there has clearly been an increase in property acquisitions for the reasons outlined above. The continuation of reduced levels of funding from central government has led to local authorities wanting to become more self-sufficient, commercial investments enable the risks to be managed at a local level rather than having to react to ongoing reductions in government funding. It is an authority’s responsibility and that of the s151 Officer to ensure the necessary due diligence has been undertaken prior to making a commercial investment.

The statement in the document that currently there is an ‘unnecessary risk to public funds’ totally ignores the benefits that many local authorities have obtained by carrying out commercial property investment.

**Responses to specific questions**

Borrowing in Advance of Need

Question 1: CIPFA is interested in stakeholders’ views on the first sentence of paragraph 45? What alternatives would you suggest?

As explained in the overview above, we do not support this change as it ignores the fact that local authorities require financial flexibilities to make informed decisions that help deliver the services required by residents. Without these, services will be reduced at a time when the importance of district council services have been highlighted and appreciated. As noted above, COVID-19 has shown the vulnerabilities of more traditional income streams and local authorities should continue to have the flexibility to spread their risk across a range of income-generating opportunities.

Question 2: Do you agree with the changes to paragraph 45 relating to the explanation of the sentence authorities must not borrow more than or in advance of need purely in order to profit from the extra sums borrowed? If not, why not? What alternatives would you suggest?

No. Demonstrating value for money in borrowing and ensuring the security of such funds equally applies to all capital schemes including those purely for yield.

Also, the proper place for such a policy is the statutory investment guidance from MHCLG, rather than the Prudential Code. The proper purpose of the Prudential Code is to enable local authorities to assess the affordability of borrowing not to decide what that borrowing is for.

Objectives of the Code

Question 3: Do you agree with CIPFA’s proposal to add proportionality to the objectives within the Prudential Code especially with regard to commercial investments? If not, why not? What alternatives would you suggest?

No as without being clear as to what is proportionate it will purely be individual views. The consultation document refers to emphasising the importance of proportionality but the lack of guidance on how this can be calculated will lead to inconsistency and confusion.

Question 4: Do you agree with the introduction of an objective in relation to commercial investments? If not, why not? What alternatives would you suggest?

Yes, and on its own this would allow purely commercial investment.

Question 5: Do you agree with the proposal to add sustainability and ensuring that the capital expenditure is consistent with a local authority’s corporate objectives (such as diversity and innovation) to the objectives in the Prudential Code? Please provide a reason for your response.

No, this proposal mixes subjective policy related issues within the objectivity of the Prudential Code. The Prudential Code should focus on the objective, financial elements of capital expenditure and not try to widen its remit which could create greater confusion.

Question 6: Do you consider the current objectives of the Prudential Code to be relevant? Please provide a reason for your response.

The proper purpose of the Prudential Code is to enable local authorities to assess the affordability of borrowing not to decide what that borrowing is for.

Question 7: Do you consider that the provisions in the Prudential Code achieves these current objectives? If not, why not? Please provide reasons for your response.

By straying from the proper purpose of the code, there is a danger that clarity is diluted.

Question 8: Do you consider that there are any areas which are not fully covered by these objectives? If yes, please expand, describing how these areas could be covered within the objectives.

No

Scope and Status of the Prudential Code

Question 9: Do you agree with the proposals to include the status of the Prudential Code within the body of the Code itself. If not, why not? What alternatives would you suggest?

Yes

Capital Strategy

Question 10: Do you agree with the proposals to include additional commentary on the assessment of affordability and the details of risks of undertaking commercial activity within the commercial activities section on determining the capital strategy? If not, why not? What alternatives would you suggest?

Yes

Prudential Indicators

Question 11: Please provide any suggestions that you might have for how the prudential indicators could be improved (as outlined above) in order that they might provide additional assurance for public accountability. Please explain your reasoning.

Prudential indicators are included in the annual Treasury Management Strategy and therefore reported to Members. It is important that the indicators are understandable and if the number of indicators are increased or become more complex there is less chance of this being the case. There is a danger that the Treasury Management Strategy would end up in a similar position to the Statement of Accounts where very few people are able to understand it and therefore find it useful.

Question 12: Do you agree with the addition of the new indicator for external debt to net revenue stream to assess proportionality?

Yes

Question 13: Do you agree with the addition of the new indicators for net income from commercial and service investments to net revenue stream to assess proportionality?

Yes, in principle. Clarity is required as to what is meant by ‘commercial and service investments’. Commercial property investments would be a clearer definition if that is what is intended.

Question 14: Do you agree with the introduction of the liability benchmark as an affordability indicator?

Yes

Question 15: Do you consider that the liability benchmark should be included in the Prudential or Treasury Management Code?

In the Prudential Code as it relates to borrowing.

**Question 16: Do you agree with the removal of the prudential indicator gross debt and the capital financing requirement CFR on the basis that it is included as part of the liability benchmark which is to be introduced as a prudential indicator?**

Yes

The SDCT hopes that this response will be fully considered before the revised Prudential Code is produced. The SDCT would be open to further discussion to help make the Prudential Code a useful document that will assist s151 officers in carrying out their duties in the correct manner and provide useful information to Members and the public.

**Society of District Council Treasurers**

**9 April 2021**