Appendix E

CIPFA Consultations on the Prudential and Treasury Management Codes

The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued consultations on proposed changes to the Code of Practice on Treasury Management and the Prudential Code. Responses to CIPFA are required by 30 September 2017.

The proposed changes would be made either in the Codes or the sector-related guidance. The proposals and questions in the consultation documents are as follows.

Treasury Management Code

Treasury Management Indicators

- Change the principal invested for longer than 364 days indicator to principal invested over 365 days in line with financial reporting definitions,
- Remove the interest rate exposure indictor and require TM Strategy to state how interest rate exposure is managed and monitored, and
- Extend the maturity structure of borrowing indicator to cover variable as well as fixed rate debt.

Do you agree with the proposed indicator changes?

Non Treasury Investments

It is intended to clarify that the Code does cover all investments held primarily for financial returns, which may include some service investments. The annex to the consultation contains an extract of the substantive changes proposed to the code and in respect of non-treasury investments; attention is drawn to the introduction, policy statement and the new TMP 13 along with a requirement to maintain a schedule of non-treasury management investments alongside the treasury management strategy.

Do you agree with the clarification that the Code should cover all investments held primarily for financial returns and the proposed amendments to the Code set out in the Annex?

Reporting

It is proposed to allow some reporting of detailed indicators and monitoring information to a committee or sub-committee whilst making clear that responsibility remains with the board/full council.

Do you agree with the proposal to allow some delegation of reporting to a committee/sub-committee in order to promote more active engagement and with the subsequent changes proposed to the Code?

Other changes

A number of general suggestions were made by respondents to consultation earlier in the year as to areas which are not fully covered by the current principles, including borrowing coverage, MiFID II, Cost of Carry indicator, Liquidity measure, TM Policy being part of TMSS, Diversification Policy, and Housing Association Guidance. These areas will all be picked up in future updates of sector specific guidance, and references have been updated as necessary.

Are there any other comments you wish to make, including on the proposed substantive changes set out in the Annex?

Prudential Code

Objectives of the Prudential Code

Objective iii) is that treasury management decisions are taken in accordance with good professional practice, and a number of respondents to earlier consultation queried whether the Prudential Code was the appropriate place for the “Adoption of the Treasury Management Code” prudential indicator, especially given that local authorities are statutorily required to “have regard” to both Codes.

It is therefore proposed that objective iii) be deleted and the requirement of the Prudential Code to adopt CIPFA's Treasury Management Code is removed.

Do you agree that the requirement of the Prudential Code to adopt CIPFA's Treasury Management Code is removed?

Mayors, Combined Authorities and the Group Entity

It is proposed that the revised code confirm that the underlying principles apply to mayors and combined authorities and the group entity, but that the use of local indicators is encouraged to recognise the differing impact of residual liabilities on the individual local authority.

It is proposed that a requirement to consider the affordability of borrowing in respect of ring-fenced borrowing in addition to overall resources is introduced. This requirement can be met through the use of local indicators. Given that the HRA is effectively such a separate ring-fenced fund, the specific requirements in respect of the HRA have been removed as it is considered that the previous requirements will be met by the new requirement.

Do you agree that the Code confirm that the underlying principles apply to mayors and combined authorities and the group entity?

Do you agree that the impact of such structures is best dealt with through the use of local indicators?

Do you agree with the requirement to consider explicitly separate ring-fenced funding streams and that this requirement removes the need to specify separate requirements for the HRA?

Ensuring Prudence

It is proposed to introduce a requirement to report on the overall capital strategy to full council in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives; and properly takes account of stewardship, value for money, prudence, sustainability, and affordability. The capital strategy should sets out the long term context in which capital expenditure and investment decisions are made; and give due consideration to both risk and reward, and impact on the achievement of priority outcomes.

In developing the capital strategy authorities are encouraged to strike a balance between the amount of detail included and accessibility to the key audience. Links should be made where appropriate to the Treasury Management Strategy.

The capital strategy also allows borrowing for capital investment to be considered alongside more commercial type and third party investment so that the overall impact on affordability and risk on the financial sustainability of the authority can be identified and understood. This is particularly important as with increasing commercialisation it is vital that authorities identify all potential liabilities and risks, and consider the combined impact on the overall financial position of the authority to ensure such activity remains proportionate.

In order to support an effective approach to risk management, and in line with the requirement for the Revenue Budget, it is proposed that the Chief Finance Officer should report explicitly on the deliverability, affordability and risk associated with the capital strategy. It is also proposed that the code recognises explicitly that the Chief Finance Officer may need access to specialised advice to enable them to reach their conclusions.

It is proposed to remove the indicator relating to council tax impact to allow focus on a longer term and more informed view of affordability rather than relying upon a slightly contrived indicator.

Do you agree with the proposal to introduce the requirement for a capital strategy to be formally reported?

Do you agree with a principles based approach and that the key matters to be taken into account are reflected in the proposed wording within the annex?

Do you agree with the proposal to require the chief financial officer to report explicitly on the risks associated with the capital strategy?

Do you agree with the proposal to delete the council tax indicator?