

The Prudential Code and the Treasury Management Code Proposals

1. The Chartered Institution of Public Finance and Accountancy (CIPFA) has proposed a number of changes to the Prudential Code for Capital Finance and to the Treasury Management Code, with a view to them being implemented by the start of 2018/19.
2. In conjunction with Capita Asset Services, the Council has responded to the proposals and the final Code of Conduct is due to be published by the end of December 2017. The Local Government Association is also expected to be issuing a separate consultation on the proposals. The suggested changes together with the Council's response are set out in below:

The Prudential Code for Capital Finance

3. **To remove the prudential indicator that states authorities should adopt the Treasury Management code;** the Council does not agree with this proposal. The requirement to adopt the Treasury Management Code within the Prudential Code ensures the maintenance of the link between Capital and Treasury Management within the formal control processes; in practice they are intrinsically linked and therefore should be linked through the control mechanism. This link will become more important if the proposal to require a Capital Strategy is adopted.
4. **To apply local indicators to Mayors, Combined Authorities and Group Entities** (rather than key indicators). The Council agrees that the Code principles should apply to mayors and combined authorities. However, the group entity has a governance structure of its own and the Directors have a responsibility under the Companies Acts, etc. for the proper governance of the entities. Insofar as the entity affects the risks of the parent authority, these risks should be brought in to the authority's own approval mechanisms.
5. In line with the removal of key indicators, CIPFA is also proposing **the removal of the HRA indicator;** the Council considers the HRA too material and politically sensitive and therefore, separate prudential indicators for the HRA should remain.
6. **That a Capital strategy is formally reported;** the capital strategy is a link between the prudential code, the treasury code and the capital programme. The strategy should support the production of the capital programme and should be linked through affordability and need to borrow to the treasury and prudential codes. Whereas the adoption of a capital strategy should be a requirement (as is currently the case at Oxford), this need not be approved annually if there are no changes to the basis of the approach the setting and agreeing a capital programme and appropriate and affordable financing arrangements. In this case, the continued application of the previously approved strategy should be made clear.
7. **That the Chief Finance Officer reports explicitly on the risks associated with the strategy;** the Section 151 Officer would be responsible for overseeing the completion of the Capital Strategy and to ensure that its content reflects the broader strategic aims and objectives of the authority and its Leadership. The Capital Strategy could be approved at the start of the planning process rather

than with the prudential indicators so that it can be used to form the capital proposals as well as inform the budget approval process.

8. **To remove the council tax indicator;** the Council believes that the tax indicator should be retained as it is one of the primary prudential indicators that stakeholders more easily identify because it indicates the potential impact of capital investment plans on revenue costs. Equally the related HRA indicator should be retained.

The Treasury Code

9. As with the Prudential code, CIPFA has proposed a number of changes to the Treasury Code which if accepted, will also be effective from the financial year 2018/19. These are set out below:
10. **To change the principal of investing longer than 364 days to 365 days, remove the interest rate exposures in favour of a narrative in the strategy and have both fixed and variable in the maturity profile indicators.** The Council welcomes the change to investment duration and also supports the maturity structure indicator extension to cover variable as well as fixed rate debt. However, some thought needs to be given to loans with a call clause regarding how these are to be categorised.
11. **The Code should cover all investments held primarily for financial returns and the proposed amendments to the Code set out in the annexe.** The Council does not agree with this proposal. Regulating under the Treasury Code is appropriate for investments made in reliance on the Section 12 investment powers, including any property purchased purely for investment purposes as well as more traditional types of investment. Other types of investment should not be brought under the auspices of the Treasury Management Code as there is a substantive difference between investments undertaken using the Section 12 Investment Power and all other investments. Service orientated capital investments, and “commercial” type capital investments which are income driven, are both distinctly different in nature and exhibit materially different risks. Such activity represents expenditure, whereas reliance upon the Investment power is not expenditure, and results only in long or short term investments. The Council believes it would be a mistake not to differentiate between these types of investments, their purpose and the associated risks.
12. **To allow some delegation of reporting to a committee/sub-committee in order to promote more active engagement** The Council considers that the Treasury function is already actively managed with regularly timetabled Scrutiny Panel meetings. If this proposal were accepted, there is also the concern that reporting will get caught up in the approval of the prudential indicators, investment strategy and the MRP strategy, which require approval from full Council. As such, any changes to the treasury report may be problematic. The Council already has a scrutiny process in place and an active Audit and Governance Committee which scrutinises and oversees its activities. Additionally, the Finance Panel specifically scrutinises treasury management and makes any recommendations it has to City Executive Board. The Council is in favour of member participation/input to the Treasury Strategy but believes the

proposed changes appear to be replicating something that is already in place and adds no additional control or scrutiny and is, therefore, of little practical benefit.

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