CIPFA – 2021 Prudential and TM Code consultation outcome - summary for clients

Timelines – CIPFA plan to publish in December 2021 and authorities should apply 'principles' from publication but full adoption from 1 April 2022

Prudential Code	
Proposed change	**Outcome of the consultation**
'Paragraph 45' new sentences clarifying borrowing in advance of need. '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'. 'Therefore, local authorities must not borrow to fund solely yield-generating investments'.	'Paragraph 45' **will** be updated and revised to include the proposals for strengthening the Prudential Code in the consultation.
	CIPFA will continue with the proposed clarifications that are intended to protect the public purse and avoid misinterpretation of the Prudential Code's provisions.
CIPFA requested respondents to comment on the proposal to add proportionality to the objectives within the Prudential Code, especially regarding commercial investments.	**CIPFA will** include proportionality as an objective in the Prudential Code, and that further provisions are included so that an authority incorporates an assessment of risk to levels of resources.
	On the matter of clarification with regard to the position of commercial proportionality, CIPFA is of the view that while local authorities should not be investing in assets primarily for commercial yield, it is recognised, for example, that commercial activity is often a component of successful regeneration projects. We therefore propose that local authorities assess the proportionality of the commercial risk of all projects, including regeneration, to quantify the risk to their resources. As a simple example, if a local authority has reserves of £20m and carries commercial risk of £50m, this would be considered disproportionate
The introduction of an objective in relation to commercial investments	**CIPFA will** provide clarification and definitions to define commercial activity and investment. The amendments to the Prudential Code will be consistent with the proposals outlined for paragraph 45 – that the purchase of commercial property purely for profit cannot lead to an increase in CFR and is considered unacceptable – and provide clear guidance that an economic regeneration scheme that has clear policy

	objectives, part of which results in commercial income, is considered acceptable.
The proposal to add sustainability and ensure 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	CIPFA believes sustainability is an important issue and **will** provide additional direction to support sustainable behaviour in the guidance without prescription.
To consider the current objectives of the Prudential Code to be relevant	The sector continues to view the Prudential Code as relevant, professional and an objective framework designed to ensure capital plans are prudent
To consider that the provisions in the Prudential Code achieve these current objectives	CIPFA recognises that elements of the Prudential Code may require further definition and clarification, and the secretariat would welcome views on how the objectives might be updated.
To consider there are any areas that are not fully covered by these objectives	**CIPFA will** review these proposals and consider how the Prudential Code might be updated. The secretariat would seek the views of the panel on how this might be undertaken.
A proposal to include the status of the Prudential Code within the body of the code itself	**CIPFA will** implement the proposal.
A proposal 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	As covered in previous responses, **CIPFA will** provide clarification on the definitions of investments primarily for yield and those related to regeneration activities within the final Prudential Code and guidance
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	The main themes of the suggestions are as follows: • There could be a requirement for indicators to be reported quarterly. It is neither appropriate nor sufficient for indicators to be reported once a year within the treasury management outturn report. • The benchmarking of debt against similar classes of authority would be a useful indicator for elected members. • Respondents are of the view that it is important 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. CIPFA will consider these responses and would welcome any further comments from the panel on the proposals and how the Prudential Code and its guidance might be updated.

The addition of new indicators for net income from commercial and service investments to net revenue stream to assess proportionality	CIPFA is of the view that it **will** implement the new indicator, with the addition of comparing this to levels of reserves to provide context on the financial sustainability of the local authority. Further to this, the indicator should be providing a narrative on the security of the commercial income as suggested to review its assessment of the levels of risk attributed to the commercial revenue.
The introduction of the liability benchmark as an affordability indicator	**CIPFA will** implement – see below
Do you consider that the liability benchmark should be included in the Prudential Code or the Treasury Management Code	The liability benchmark is an essential risk management tool. The optimum position is for total borrowing to be on the liability benchmark line. Borrowing above that level will be reflected in increased investment balances and introduce the cost of carry and additional credit risk implications, although this may be needed to anticipate interest rate movements and secure affordable borrowing. CIPFA will implement the liability benchmark as a treasury indicator and will provide substantial guidance on the use and creation of a liability benchmark to enable local authorities and other organisations to use this effectively.
The removal of the prudential indicator - gross debt and the CFR on the basis that it is included as part of the liability benchmark, which is to be introduced as a prudential indicator	**CIPFA will <u>not</u>** remove the prudential indicator gross debt and CFR.
<u>Treasury Management Code</u>	
A proposal that organisations that have adopted the Treasury Management Code will have to explicitly document a formal and comprehensive knowledge and skills schedule to ensure the effective acquisition and retention of treasury management skills for those responsible for the management, delivery, governance, decision-making and compliance with legislative requirements	
The proposals for what should be included in a knowledge and skills schedule included - • Relevant legislation, guidance and other specifications (eg MIFID II, CIPFA Treasury Management Code of Practice, statutory investment guidance issued by government) that must be understood and complied with to ensure that staff or board/council members are able to fulfil their roles.	

• The staff/role or board/council members to whom the policy applies. • The relevant competencies for each role. • How the training will be delivered, eg in house training, external courses (specifying the type course followed), the need for formal qualifications), this would include induction requirements. • How the regularly the training will need to be provided. • How the training will be recorded. • How the knowledge or skills will be monitored, including gaps is training or requisite knowledge will be determined. • How, where and when reports will be provided on the monitoring and review of the requirements of the knowledge and skills schedule.	
Monitoring and review of knowledge and skills. Organisations should consider how to assess whether treasury management staff and board/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date. As a minimum, CIPFA proposes authorities should carry out the following to monitor and review knowledge and skills: • Record attendance at training and ensure action is taken where poor attendance is identified. • Prepare tailored learning plans for treasury management officers and board/council members. • Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation). • Regular communications with officers and board/council members encouraging them to highlight training needs on an ongoing basis.	
As a part of ensuring that treasury management staff and board/council members have the requisite knowledge and skills, it will be important that the organisation specifies the competencies for each role. At a minimum the organisation should specify the competencies for the roles listed below: • the treasury manager	

• the responsible officer • chief finance officers (in local authorities, section 151/section 95 officers) • board/council members.	
Guidance to the Treasury Management Code should include specifications on key competencies for treasury management roles	As indicated in the consultation papers it is essential that the treasury management function is supported by appropriate training for local authority members and staff. **CIPFA will** therefore proceed with the implementation of the Treasury Management Knowledge and Skills framework. CIPFA will add a level of 'scalability' or maturity to ensure flexibility for small to large organisations of various complexity and resources. CIPFA recognises that certain roles will be fulfilled as part of a job at smaller organisations. However, the purpose of the schedule is to not only recognise the professional role that treasury managers play within an organisation and their importance but also to highlight the need for resources and training where appropriate for organisations. CIPFA will also provide a template for organisations to produce a 'learning needs analysis' to support the implementation of new requirements and processes under the expanded guidance
The addition of a new TMP to address environmental, social and governance (ESG) risks	CIPFA recognises the arguments put forward by the respondents and **will <u>not</u>** at this juncture include a separate TMP for ESG. However, They will incorporate ESG issues as a consideration within TMP1 (risk management)
More complex treasury management functions (ie a professional client under MiFID II legislation) means that local authorities would benefit from the support of a dedicated committee to review decisions and strategies and that CIPFA should recommend this in its guidance provided to local authorities	CIPFA recognises the consistent theme within the responses disagreeing with the proposals. It would clarify that the proposal was intended to form part of the guidance as a recommendation to examine the benefits of a separate committee, not to prescribe a specific governance structure. However, it will revisit the proposals to make sure that they take on board the views of respondents while ensuring that appropriate resource is dedicated to the review and scrutiny of treasury management decisions.
The removal of the maturity structure of borrowing treasury management indicators on the introduction of the liability benchmark indicator	**CIPFA will <u>not</u>** remove the maturity structure indicator. However, if the organisation is publishing a liability benchmark then it will consider approaches to make this indicator optional.