Appendix 2

Draft Warwickshire County Council Response to the CIPFA Prudential Code Consultation

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

The borrowing in advance of need paragraph (paragraph 45) is unclear and is open to interpretation. The paragraph should read that borrowing in advance of need is not allowed if the primary objective is to benefit from yield generating investments of any type, rather than only if to profit from the investment of *extra* sums borrowed.

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?

Clearer guidance is required on how an authority can define "generation of yield" and when this becomes a primary objective or a by product of a project or investment.

The changes in this sentence focus first on the investment of extra sums, then on yield generating investments. If the purpose of disallowing borrowing in advance of need is to stop profit seeking activities, then the paragraph should highlight this by using "yield generating investments, including investment of extra sums".

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?

Yes, proportionality helps local authorities with the activity scope that can be implemented through their capital programme. Further guidance is needed on the definition of "proportionate" for commercial investments, and whether multiple indicators would be used. Also a clearer definition of "commercial investment" will be needed.

However the reference to commercial investments here also opens up a further level of spending (i.e. that is not always affordable, prudent and sustainable) and should not fall under the same proportionality factors.

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. Further guidance and clarity is needed on the commercial investment scope before objectives are set.

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.

Yes, however the term sustainability has many interpretations, and its meaning in this case should be specified, for example does this mean financial sustainability, does it mean environmental sustainability, does it mean the objectives of an investment remaining aligned with the objectives of the authority over the whole duration of the investment, etc.

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

Yes. The current objectives are clear, professional and non-political.

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.

Yes. The guidance provided within the Prudential Code give local authorities structure and flexibility to set plans, within given constraints.

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.

The current code provides clear objectives.

Question 8.2: 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 we agree.

Question 9: 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, additional commentary on commercial activity would highlight the importance of it.

Question 10: 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 need to be clear and understandable to the reader, who in many cases may not be part of local government finance. In the interest of simplicity, indicators such as Capital Expenditure, Capital Financing Requirement, use of reserves, and costs of finance; provide the most information at a high level. Other detailed indicators could be used where appropriate to the authority and audience.

Question 11: Do you agree with the addition of the new indicator for external debt to net revenue stream to assess proportionality?

No. External debt is not always a relevant indicator because of the other factors driving the authority's finances. CFR spend and budgeting is influenced by all types of debt, not just external, which makes this indicator non comparable.

Gross Debt to CFR, and CFR to net revenue stream, are more relevant indicators as they allows for other types of borrowing or financing (such as internal borrowing) to therefore show the total debt requirements of the authority.

Question 12: Do you agree with the addition of the new indicator for net income from commercial and service investments to net revenue stream to assess proportionality?

Yes. Only as an assessment of how much income is derived from commercial and service investment, and should be kept separate from non-investment related services that generate yield, for example traded services that do not require capital expenditure but generate income.

Question 13: Do you agree with the introduction of the liability benchmark as an affordability indicator?

Not as an affordability indicator. It is a short term indicator that does not take into account the longevity of a local authorities debt profile. As an indicator it could be a useful tool for shorter termed debt and management of cash flows, but is not relevant or useful to all local authority financial situations.

Question 14: Do you consider that the liability benchmark should be included in the Prudential or Treasury Management Code?

To be used as a forecasting tool, it should sit in the TM code.

Question 15: 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?

No, this should not be removed. Gross debt is inclusive of several options available to authorities and removing these would change the fundamental financial picture of the authority under other indicators.