**The Prudential Code for Capital Finance in Local Authorities Consultation**

**Response of South Oxfordshire DC**

**Simon Hewings, Interim Head of Finance**

**9 April 2021**

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

Its better but it still is not explicit. At a course I attended a couple of years ago over half the room admitted to not knowing exactly what borrowing in advance of need was. Please be specific as to what we are or are not allowed to borrow for.

**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?**

As above, to avoid uncertainty, can CIPFA please be explicit on what you can and cannot borrow for?

**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?**

Generally yes. The reference to commercial property though is confusing in light of earlier comments – presumably this can only be commercial activity undertaken by a council without any need for borrowing of any form?

**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 per se, but this would need to be accompanied by a definition of what commercial activity is acceptable

**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.**

Whilst sustainability etc are important matters the prudential code is an accounting code of practice and, as such, its not clear that such matters should be reflected in it

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

Yes – they are to provide an objective process by which affordable capital budgets are set

**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.**

As stated above, it would be helpful if the Code can explicitly say what commercial activity can and cannot be undertaken.

**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.**

Perhaps an indicator for general fund and other usable reserve balances

**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?**

Agree

**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, subject to, as identified earlier, clarity being provided on what commercial activities are now permitted (presumably only those already in existence or capable of being funded without any borrowing or any sort)

**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.**

Simpler and clearer descriptions and indicators would work better. These would include:

* Capital expenditure
* Capital financing requirement
* Use of resources – reserves and balances projections
* Financing costs as a of net revenue stream.

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

No – the CFR is the measure of indebtedness

**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?**

Only if the legitimate commercial activity can be clarified

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

No

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

No

**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?**

No