**Appendix B**

## Treasury Advisers and RBC TM and Prudential Codes Updates

CIPFA have released the new editions of the Treasury Management Code and Prudential Code, which are available to purchase from CIPFA's website.

The information below sets out the key areas that we have identified from the first review of both Codes.

CIPFA have set out the legal status of both Codes with clarification on the areas that have to be complied with in italics and a reminder that the rest is guidance to support authorities manage risks associated with their own Treasury and Capital Financing strategies.

**Prudential Code (RBC TM Strategy paragraph references and commentary also detailed in bold below)**

- CIPFA make it clear that 2021 Code applies with immediate effect, except that authorities may defer introducing revised reporting requirements until 2023/24 financial year (these include changes in capital strategy, prudential indicators and investment reporting). The ongoing principles that an ***authority must not borrow to invest primarily for financial return, apply with immediate effect!*** **Paragraphs 4 and 68**
- Objectives – capital plans and investment plans affordable and proportionate; all borrowing/other long-term liabilities are within prudent and sustainable levels; risks associated with investment are proportionate to financial capacity and treasury management decisions are in accordance with good professional practice. **Paragraphs 5 and 71**
- Further strengthening on matters to be taken into account when setting and revising prudential indicators particularly decision making on capital investment, determining a capital strategy, prudence and affordability**. Paragraphs 7 and 20**
- ESG in Capital Strategy – broadened to make clear the strategy should be address environmental sustainability in a manner which is consistent with their own corporate policies on the issue. **Paragraphs 5 and 38**
- Commercial Property – makes clear historical asset base not impacted and that plans to divest should be part of an annual review with views on immediate disposal being removed. **Paragraphs 70 and 79** Director of Finance and Corporate Services Commercial Property Update Report to both Corporate Governance Group and Cabinet
- Investment Practices – will remain a requirement but some amendments will be made to wording in documents circulated in consultation with clarity around Commercial and Service Investment risk management framework.
- Definition of Investment – separate categories for Treasury Investment, Service Investment and Commercial Investment. **Paragraph 18**
- CIPFA leaves any decision to maintain long term Treasury Investment to each Authority/S151 to justify (assumption being that these are not borrowed for) and any longer-term Treasury Investment to be linked to Business Model (e.g. a link to cash flow management or treasury risk management).
- CIPFA key concern continues to be regarding leverage and borrowing to invest particularly for Commercial and Service Investment -with a clear statement regarding not being prudent to make any investment or spending decision that will increase capital financing requirement, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose**. Implicit throughout and paragraph 68**

- Capital Financing Requirement – Gross Debt and the capital financing requirement still a key indicator – small changes to calculation of CFR to include Heritage Assets etc agreed and noted the CFR can be a negative figure**. Paragraph 11**

**Treasury Management Code**

- Unlike the Prudential Code, there is no reference to effective date within the new edition of the Treasury Management Code – CIPFA do state "The TM Code, which is market guidance, has no statutory underpinning, and there are no arrangements for supervision or enforcement" and also add that authorities do have to have regard to guidance under provisions of Local Government Act 2003 and in Scotland this is tightened further by finance circular 5/2010 which requires local authorities to have regard to the TM Code. **Paragraph 4**
- Investment Management Practices (IMPs) – implemented in TM Code for Non-Treasury Investment and expected to follow same format used for Treasury Management Practices – refer to Section 2. **Financial Services updated January 2022**
- TMP1 Credit and Counterparty Risk Management – refer to Section 2 and some further clarification on ESG also within 1.13 of TM Code. **Financial Services updated January 2022**
- Knowledge and Skills – TMP10 strengthened and a requirement to retain an aims and objectives schedule added - may need some further clarification provided on proportionate process for the smaller entities that have to comply. **Paragraph 64 Financial Services updated January 2022**
- TM Reporting and TM Code makes clear that reporting should set out Service and Commercial investment risks especially where this is supported by borrowing/leverage (this seems to be the key concern for CIPFA) with proportionate level of any borrowing a decision for Authority/S151 – also emphasis placed "Local authorities must not borrow to invest for the primary purpose of financial return. Other public service organisations may decide that the same principle concerning the prudent use of public funds also applies to them. **Noted and no longer using Asset Investment Fund**
- TM Code reporting frequency – a minimum annual reports before, mid-year and after the year-end. **Noted and currently RBC approach**
- Liability Benchmark – CIPFA have advised that it is a benchmark and not prescriptive and if an Authority can justify that it is prudent to maintain a position above or below benchmark that is up to them. CIPFA have said that if a local authority wants to maintain longer term treasury investments in the portfolio and that is in conflict with the Liability Benchmark they will have to justify that is a prudent approach. **Paragraph 33**

CIPFA has achieved the timeline they set themselves and issued the **revised Treasury Management and Prudential Codes and cross-sectoral guidance notes** on **20th Dec 2021** with clear statement to say there is a soft launch with formal adoption for 2023/24 financial year – but please note that the Prudential Code does state that it **applies with immediate effect**, except that authorities may defer introducing revised reporting requirements until 2023/24 financial year. This does mean each authority will have to determine if any of the changes implemented today will impact on the ability to deliver any capital schemes that they have in the current programme for 2021/22 and future years.