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Submitted to Consultation on Local Government capital risk mitigation measures in the Levelling Up and Regeneration Bill: capital risk metrics
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Introduction

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3 Organisation?

Organisation:
Pendle Borough Council but also on behalf of the Society of District Treasurers (SDCT)

Background

New statutory powers and risk metrics

Scope of the consultation

Matters for consideration

Risk metric one:

4 Considering the objectives set out in this document, and the principles set out, do you agree that the proposed calculation (calculation 1(a)) should be the basis for this metric?

No

Please explain:

The use of this metric, and indeed all metrics proposed, is not unhelpful in acting as a looking glass tool to identify outlier councils whose position can be explored further. However, it should be recognised that there may be legitimate reasons as to why a council's position is so, and therefore the risk metrics should be used thoughtfully and carefully.

TSE is a good measure of the size of a local authority because it is based on actual spending figures. However, it does exclude HRA expenditure, therefore to be consistent - the HRA element of the CFR should be excluded as this will undoubtedly skew the figures and lead reviewers to make inaccurate conclusions and inappropriate comparisons.

The inclusion of HRA figures is an obvious flaw in the metric and needs to be corrected, even more so given that a proportion of HRA debt is directly attributable to the Government's own self-financing policy.

Additionally, the limitations of the metric include not being able to distinguish between those authorities with a similar CFR but where one has relatively high levels of reserves and balances and may not need to externalise internal borrowing and another that does not. Therefore, this measure will likely inadvertently identify a LA that manages its overall treasury management position well and is not a high risk as being the opposite.

5 Are any of the alternative calculations more appropriate than the proposed calculation?

No

Please explain:

As Above

6 Considering the objectives set out in this document, and the principles set out, is there an alternative calculation/s you think is more appropriate?

No

Please explain:

As Above

Risk metric two:

7 Considering the objectives set out in this document, and the principles set out, do you agree that the proposed calculation (calculation 2(a)) should be the basis for this metric?

Yes

Please explain:

The definition of this metric needs to be clarified. Is the intention of the metric to reflect investments that are 'made, or held, wholly or mainly in order to generate a financial return' (commercial) or to show the return for all non-treasury investments including both service and commercial as defined by the CIPFA Treasury Management Code? Assuming it is for all non-treasury investments than 2a is preferred.

However, 2a does not show the level of commercial capital assets, only the income from them. If there is no income generated e.g., because they are loss-making or interest payments on loans are to be deferred, then this will not highlight LAs that may have a high proportion of commercial risk.

8 Are any of the alternative calculations more appropriate than the proposed calculation?

No

Please explain:

As Above

9 Considering the objectives set out in this document, and the principles set out, is there an alternative calculation/s you think is more appropriate?

No

Please explain:

As Above

Risk metric three:

10 Considering the objectives set out in this document, and the principles set out, do you agree that the proposed calculation (calculation 3(a)) should be the basis for this metric?

Yes

Please explain:

Again, the use of this metric, and indeed all metrics proposed, is not unhelpful in acting as a looking glass tool to identify outlier councils whose position can be explored further. However it should be recognised that there may be legitimate reasons as to why a council's position is so, and therefore the risk metrics should be used thoughtfully and carefully. It is perfectly possible for non-public sector debt to be 'good deal' for the Council in terms of rates especially given that there was a time when PWLB upped its rates without warning.

For this metric, this position is important because the metric will likely flag historical decisions, rather than prevent future decisions being taken. If the intention of these risk metrics is to prevent novel or high risk future arrangements, this metric is not suitable and other more direct intervention may be more appropriate if the inference is that . government debt is good and anything else is bad.

11 Are any of the alternative calculations more appropriate than the proposed calculation?

No

Please explain:

As Above

12 Considering the objectives set out in this document, and the principles set out, is there an alternative calculation/s you think is more appropriate?

No

Please explain:

As Above

Risk metric four:

13 Considering the objectives set out in this document, and the principles set out, do you agree that the proposed calculation (calculation 4(a)) should be the basis for this metric?

Yes

Please explain:

However, we believe the option 4(a) metric should not be used in isolation because there are a wide variety of reasons which may not identify LAs that may not be making sufficient MRP e.g., impending impairment of an asset or a loan to a third party.

Additionally, the proposed calculation is based on only one year and therefore this metric is unlikely to identify a potential issue which may be disguised through in-year one-off movements in the MRP charges.

There should be the ability to provide commentary where necessary to explain variations.

14 Considering the objectives set out in this document, and the principles set out, is there an alternative calculation/s you think is more appropriate?

No

Please explain:

As Above

About this consultation

Personal data