



REPORT

Committee	TREASURY MANAGEMENT PANEL		
Venue	Robert Street	Date	18 October 2002
Author	Maureen Wellen Policy and Technical Manager Capital and Treasury	Tel	01628 623 652
Subject	Prudential Code for Capital Finance in Local Authorities		

PURPOSE

To receive and consider an update report on the Prudential Code and a first revised draft of the Code.

REPORT

- 1 Work on the Prudential Code for Capital Finance in Local Authorities is continuing. Since the meeting of the Treasury Management Panel in May, the Prudential Code Steering Group has met on
 - 11 July Copy of minutes attached
 - 16 October For oral report.
- 2 A first full revision of the 2001 exposure draft of the Prudential Code has been prepared and is attached with this report. This revision is work in progress towards a second exposure draft of the Prudential Code that is planned for the Spring of 2003 – the timing is dependent on the development of legislation.
- 3 This first redraft of the Prudential Code has been updated in line with decisions taken by the Prudential Code Steering Group at their meeting in July, when they considered issues raised in response to the 2001 exposure draft. Experiences from road testing to date have also been taken into consideration. Further amendments, in line with developing primary and secondary legislation will need to be made in the future. Also, the second round of workshops for local authorities who are roadtesting the draft Code are taking place in November and the outcome of these will need to be taken on board.

- 4 This draft of the Prudential Code will be considered by the Prudential Code Steering Group on 16 October and the views of the Treasury Management Panel are also requested. A presentation will be made at the TMP meeting by the Chairman and Secretary of the PCSG on the revised draft and the development of the Code.
- 5 The TMP is asked to consider, in particular, an issue with respect to the prudential indicators for treasury management. Some respondents to the first exposure draft have queried whether the indicators for treasury management would fit better in the Treasury Management Code than the Prudential Code. At their May meeting, the TMP agreed that this is a matter for the TMP to consider and that the Panel would do so at its October meeting, following further discussion at the Steering Group.
- 6 The PCSG have discussed the matter further and have agreed that the factors to be taken into consideration are:
 - the TM Code deals with treasury management issues
 - the TM Code is cross sectoral whereas the Prudential Code will apply to local authorities
 - the current statutory framework in England and Wales (Part IV of the LGHA 1989) requires authorities to set certain limits in relation to treasury management; the Prudential Code will only come into force when the old system ends whereas the TM Code is current
 - there will be a requirement to explain the content of the Prudential Code to Parliament, since Parliament is being asked to place reliance on the Code
 - Graham Fletcher, ODPM, reported that the ODPM will consider the status of both the Prudential Code and the TM Code within the developing statutory framework.
- 7 Whilst recognising that there is a minority view that the Prudential Code should only contain a cross reference to the TM Code, the PCSG decided to recommend to the Treasury Management Panel that the Prudential Code should continue to contain the current cross reference to the TM Code and in addition the prudential indicators for treasury management. This decision is linked to their consideration of the detailed format of the prudential indicators for treasury management.

RECOMMENDATION

The Treasury Management Panel is asked to receive and consider this update report on the Prudential Code and first revised draft of the Code.