



REPORT

Committee	PRUDENTIAL CODE STEERING GROUP		
Venue	Thistle Hotel, Charing Cross	Date	11 July 2002
Author	Maureen Wellen Policy and Technical Manager Capital and Treasury	Tel	01628 623 652
Subject	Issues paper – requirement for and location of prudential indicators for treasury management		

PURPOSE

To consider issues paper on the requirement for and location of prudential indicators for treasury management for consideration for revisions to the draft Prudential Code.

REPORT

1 The issue

The current draft Prudential Code includes prudential indicators for treasury management. Matters arising:

- (a) A significant number of responses to the exposure draft comment either that there are too many prudential indicators within the current draft in relation to treasury management, or that reliance on the CIPFA *Code of Practice for Treasury Management in the Public Services* (the TM Code) is sufficient in itself without the need for further indicators.
- (b) Several respondents comment that the requirement for treasury management indicators should be part of the TM Code rather than the Prudential Code.
- (c) This report deals with whether there is a requirement for treasury management indicators other than compliance with the TM Code and, if so, their location. Paper PCSG 4 02/03 deals with the detailed format and number of indicators proposed in the current draft.

2 Ideas for consideration

- (a) The treasury management indicators in the current draft would require each authority to set its own limits for treasury management activities in relation to key treasury management risks. Specifically, limits are required to be set for:

- variable rate interest exposures
- fixed rate interest exposures
- maturity of borrowings
- investment of principal sums.

The precise format and number of indicators is considered in PCSG 4 02/03. The PCSG is here asked to consider whether there is a need for such indicators within the new system.

- (b) In discussions with practitioners, and particularly at the first set of workshops for road testers, the view is often expressed that there is no need for these indicators because this is already done by local authority practitioners in any event. The issue of principle seems to be the level at which these limits are decided and/or reported.

- (c) These indicators address key areas of risk for public money.

- (d) The PCSG is asked to consider where, under the prudential framework, decisions on the strategy (limits) for such areas should be decided:

- not required at all
- delegated to the treasury management practitioner
- delegated to the CFO
- by the Authority.

- (e) The current draft of the Prudential Code would require that (paragraph 45):

“Prudential indicators for treasury management should be considered together with the local authority’s treasury management strategy and the annual report on treasury management activities.”

- (f) With respect to the comment that treasury management indicators should be included in the TM Code, this was reported to the meeting of the CIPFA Treasury Management Panel held in May. It was agreed that this is a matter for the Treasury Management Panel to consider and that it will do so at its October meeting, following further discussion at the PCSG.

- (g) The PCSG is asked to consider further whether to recommend that any prudential indicators for treasury management other than compliance with the TM Code should be within the TM Code or within the Prudential Code. Relevant factors include:

- 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.

RECOMMENDATION

The PCSG is asked to consider this issues paper on the requirement for and location of prudential indicators for treasury management.