**APPENDIX A**

# The Practical Implications of the new Treasury Management Code and Prudential Code

## 1. Adoption of the Treasury Management Code

Due to a change in the Prudential Indicators (see below) there is no longer a requirement for local authorities to formally adopt the Treasury Management Code. Local authorities in all parts of the UK are now required by law to have regard to the Code.

The Council therefore does not need to formally adopt the latest revision to the TM Code.

## 2. Treasury Management Strategy Statement (TMSS) 2018/19

Full Council formally approved the 2018/19 TMSS on 22 February 2018; the revised code does not include any changes to the format or content of the TMSS.

This means that the strategy statement approved by Full Council in February meets the requirements of the new code and there is no requirement to take a revised TMSS to committee for approval.

In its consultation on changes to the Code, CIPFA proposed and approved changes to its treasury management Indicators. However, these are contained in the local authority sector-specific guidance notes, not the Treasury Management Code itself (which applies to the wider public sector). Arlingclose, the Council's treasury advisors, understand that updated LA Guidance Notes will be published later this year.

Where a local authority produces a capital strategy, the Treasury Management Code allows the TMSS to be approved by a Committee instead of Full Council, therefore Council could chose to delegate this to say the Executive or Audit Committee. However, government guidance across the UK requires Full Council to approve the Investment Strategy which is inextricably linked with our treasury strategy, so this will have little effect until government guidance is changed.

## 3. Capital Strategy

The updated Prudential Code includes a requirement for local authorities to produce a Capital Strategy, which is to be a summary document approved by Full Council covering:

- Capital expenditure and financing
- Treasury management and non-treasury investments.

A statement published by CIPFA recognises that authorities may require a lead-in period to create a Capital Strategy and states that "it recognises that this requirement may not be able to be fully implemented until 2019/20 financial year."

In a separate consultation on changes to the Guidance on Local Authority Investments applicable to authorities in England, the Ministry of Housing, Communities and Local Government (MHCLG) has proposed certain items be included within the Capital Strategy. Arlingclose will therefore produce a template for an annual Capital Strategy report when updated government guidance has been published.

## 4. Prudential Indicators

The new Prudential Code has deleted three Prudential Indicators

- Incremental impact on Council Tax
- Adoption of the Treasury Management Code
- Housing Revenue Account limit on indebtedness (not applicable to SSDC)

and recommends that the following three are included in the Capital Strategy:

- Authorised limit
- Operational boundary
- Estimates of capital expenditure

Although the Capital Strategy need not include the indicators for the capital financing requirement (CFR) or its comparison with gross debt, the Code recommends that forecasts for both the CFR and external debt are included.

The remaining indicators, which will be the ratio of financing costs to net revenue stream and any local indicators need not be approved by Full Council going forward.

However, given the effective requirement to include five of the six mandatory indicators in the Capital Strategy, it is anticipated that most Authorities will opt to include all six from 2019/20 onwards.

The 2018/19 Prudential Indicator estimates have been presented as in previous years. The deleted indicators described above have been included and a decision on whether these indicators are kept as local indicators in future years needs to be taken by the Council. This will be addressed through the development of approved TMSS and Capital Strategy for 2019/20.

## 5. Treasury Management Practices (TMPs)

The recommended wording has been updated for TMP 1 - Risk Management and TMP 4 - Approved Instruments, Methods and Techniques. There are also a number of changes to the cross-sectoral guidance notes and suggested schedules, which depending on the format of the Council’s current TMPs may also need updating.

Arlingclose will issue an updated template for the TMPs in due course and the Council will update its TMPs in line with this.

## 6. Management Practices for Non-Treasury Investments

The revised Treasury Management Code includes a new requirement for **management practices for non-treasury investments** (similar to TMPs), including loans made and guarantees given for service purposes, shareholdings in subsidiaries and direct property investments.

Given the wide variety of non-treasury investments made by local authorities, Arlingclose are not intending to issue a template document to meet this new requirement, although suggested paragraph headings will be provided.

Although a separate requirement, it is anticipated that most Authorities will include non-treasury management practices with their TMPs, and it is proposed this is the case for SSDC.