

# **The Prudential Code for Capital Finance in Local Authorities: Fully Revised Guidance Notes for Practitioners 2007**

## **FOREWORD**

The prudential framework for local authority capital investment introduced through the Local Government Act 2003 and the Local Government in Scotland Act 2003 has had a real and beneficial impact on service delivery by supporting strategic planning for capital investment at a local level. It has been used responsibly while at the same time has promoted innovative projects. This success is the subject of CIPFA's forthcoming Compendium of Good Practice on the Implementation of the Prudential Code. It has not proved necessary for government to use the reserve powers that it has retained in the system.

CIPFA developed The Prudential Code for Capital Finance in Local Authorities (the Code) as a professional code of practice to support local authorities in taking decisions on capital investments. Key objectives of the Code are to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

In 2004, CIPFA issued The Prudential Code: Guidance Notes for Practitioners that reflected both the experience of local authorities preparing for and implementing the prudential framework in 2004/05 and the finalisation of the regulations with respect to the prudential framework itself. Although the success with which local authorities have implemented the Prudential Code means that a fundamental revision of this guidance is not yet necessary, there have nonetheless been a series of developments that make its updating now necessary.

Across England, Wales and Scotland, the changes introduced in the SORP 2007 demand a revision of the accounting terminology used throughout the earlier guidance. In England, changes have been introduced in regulations that have had a significant impact on some of the more complex statutory contexts in which the Prudential Code is implemented. In Wales, there have been new regulations with a narrower focus on the accounting treatment of discounts and premiums arising from the early repayment of loans. In Scotland, statutory guidance on accounting practices has similarly been issued in response to the accounting standards on financial instruments. Scottish regulations on local authority investments are expected in the summer of 2007 but have not been taken into account in this guidance. More broadly, the experience of practitioners has deepened the profession's understanding of the practical implications of the Code – experience that this new guidance seeks to reflect.

CIPFA would like to thank all those who have contributed to the success of the Code. CIPFA would also like to thank the members of its Treasury Management Panel who oversaw the development of this updated guidance:

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