

The Special Interest Group of Municipal Authorities (Outside London)

**About SIGOMA**

SIGOMA is a special interest group (within the LGA) representing 46 local authorities in the northern, midland and south-coastal regions of England, comprising 32 metropolitan districts and 14 major unitary authorities, covering key urban areas.

1. ***Question 1Do you agree with the proposed change [ that matters required to be disclosed in the investment strategy may be disclosed in the capital strategy]?***
   1. SIGOMA support the LGA in their agreement in principle.
2. ***Question 2 Do you agree that it is important for local authorities to disclose the contribution that investment activities make to their core functions?***
   1. SIGOMA support the LGA in their agreement that disclosure of the financial contribution investing activities make towards core activities is reasonable
3. ***Question 3 Are there any other measures that would increase transparency?***
   1. No comment
4. ***Question 4 Do you agree with the introduction of a requirement to enable Councillors to assess total exposure [to risk arising] from borrowing and investment decisions?***
   1. SIGOMA support the principle
5. ***Question 5 Do you agree with the decision not to specify indicators or thresholds?***
   1. SIGOMA support the decision
6. ***Question 6 Do you agree with the extension of the principles of security and liquidity to non-financial assets?***
   1. This question touches on the much broader issue of identifying assets that are held solely or mainly for the purpose of obtaining a return on investment and distinguishing them from those that have other core service objectives but which may also provide a return.
   2. It is of course a matter of good stewardship that all assets should be represented at their fair value but the fact that a non financial asset has financial returns should not automatically bring it within the bounds of the treasury statement or the principles of security and liquidity.
   3. Subject to clarity on this issue the principle is accepted.
7. **Question 7 Do you agree with the definitions of security and liquidity for non financial assets?**
   1. Subject to the point made in 6 above, we agree.
8. **Question 8 Do you agree with the introduction of a concept of proportionality?**
   1. Members do not oppose the disclosure of the financial impact of lower than expected returns on its budget or MTFF.
   2. In terms of opportunity cost this is likely to be expressed in terms of the annual cost of borrowing which should in all cases be expected to be lower than income . It may be useful to show the expected payback period of income v borrowing.
9. **Question 9 Do you agree that authorities who borrow solely to invest should disclose additional information?**
   1. Members support the proposal where it is non-contentious from minutes and correspondence that the borrowing in question is solely to obtain a yield.
10. **Question 10 Do you agree with the extension of disclosure requirements on steps taken to secure sufficient expertise to include all key individuals in the decision making process.**
    1. We support the LGA in their view that the requirement as currently worded may be too onerous. The requirements should apply only to those directly engaged in investing activities and then only at a level appropriate to their responsibility to operate within the local framework of the Prudential Code.
11. **Question 11 Do you agree with the change to the definition of the basis of MRP?**
    1. We support the LGA response in support of a borrowing requirement in the Capital Financing Requirement as a suitable basis for charging MRP.
12. **Question 12 Do you agree that the guidance should clarify that a [MRP] charge to an account cannot be a credit ?**
    1. Whilst members are supportive of a presumption against negative RSG, there may be legitimate cases for crediting revenue to correct an historic MRP over-provision. We suggest that guidance might establish the circumstances which might give rise to a credit.
13. **Question 13 Do you agree that changing MRP methodology does not generate an overpayment of MRP?**
    1. As with Q12 there may be legitimate instances why changing MRP methodology might result in a credit and guidance should establish limited circumstances under which this may be accepted and the broad methodology for a reduced MRP charge.
14. ***Question 14 and 15 Introduction of a maximum economic life of assets***
    1. *The consultation includes the following paragraphs:*

*(37) Two of the four recommended options for calculating MRP in the Guidance use asset life as the denominator. The Government has concerns that some local authorities may be setting artificially long asset lives to reduce the annual charge for MRP and thereby deferring revenue costs into future years.*

*(38) The Government does not believe that this is a prudent approach and for this reason the updated Guidance includes a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The useful economic lives have been selected with commonly used practices in depreciation accounting in mind.*

***Do you agree that the guidance should set maximum useful economic lives for MRP calculations based on asset life?***

* 1. Members are strongly opposed to the proposal on the following grounds.
* The concern referred to in the consultation are vague and unquantified. The statement that only “some” authorities are setting artificially long asset lives implies that this is a blanket solution to address perceived specific abuse, which may punish prudent and diligent authorities. It is for auditors and if necessary Government to challenge individual behaviours that are giving rise to this concern.
* The consultation refers to common practices in depreciation. FRS[[1]](#footnote-1) 15 Tangible Fixed Assets on depreciation refers to land having an “unlimited life and therefore is not depreciated” (para 84) this provision was reflected in section 17.16 of FRS 102. The FRS does not negate estimated building lives of 50 years or more but does require an impairment review in each accounting period where the life of the [building] exceeds 50 years (para 89b).
* A number of our members have responded that new buildings are regularly, almost routinely, assessed as having lives of 60 years and within PFI schemes having design lives of 60-70 years.
  1. The draft guidance should be amended to remove the upper limit for land and introduce a presumption in favour of 60 years for buildings, but with the provision that authorities may, by agreement with their auditors, use a longer period provided that:
* This asset life is supported by surveyors written valuation
* Any asset life over 60 years is subject to an impairment review with (with immediate one off supplementary MRP provision of any shortfall as a result of the review)
* There is no limitation to income streams (or in the case of authorities, operational use) related to the asset that suggests a shorter life
* The rates have been reviewed by external auditors and found acceptable
  1. Failing our recommendation Government should make the proposed changes prospective only, i.e. not affecting agreed MRP rates on previous capital expenditure
  2. Government should be clear about the potential adverse financial consequences of changing this guidance, on which authorities have relied in setting out their budgets and medium term financial plans.

1. **Do you agree that the codes should be implemented in full for 2018-19?**
   1. We concur with the LGA that implementing the guidance in its current form in 2018-19 could lead to significant problems for authorities, not least because the CIPFA code, to which this guide makes reference has not been publicised. We agree with the LGA that the earliest practical implementation date is 2019-20.

1. Financial Reporting Standard [↑](#footnote-ref-1)