Ministry of Housing,
Communities &
Local Government

Consultation on the proposed changes to the prudential framework of capital finance

Summary of consultation responses and Government response

February 2018
Ministry of Housing, Communities and Local Government

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Introduction

1. The Ministry for Housing, Communities and Local Government (MHCLG) has policy responsibility for the Prudential System. This covers the responsibility for ensuring that the statutory guidance drives local authorities to make borrowing and investment decisions in a way that is commensurate with their statutory responsibilities and the best value duty. It also includes overall responsibility for the local government finance system, including understanding the risks to the system from changes in the types of borrowing and investment activities that local authorities are undertaking.

2. The statutory framework for the Prudential System incorporates four statutory codes and MHCLG is responsible for preparing the Guidance on Local Authority Investments ("Investments Guidance") and the Guidance on Minimum Revenue Provision ("the MRP Guidance"). The Investments Guidance covers proper practices that local authorities are required to follow when making investment decisions. The MRP Guidance contains statutory guidance that local authorities are required to have regard to when calculating the annual amount of MRP to put aside.

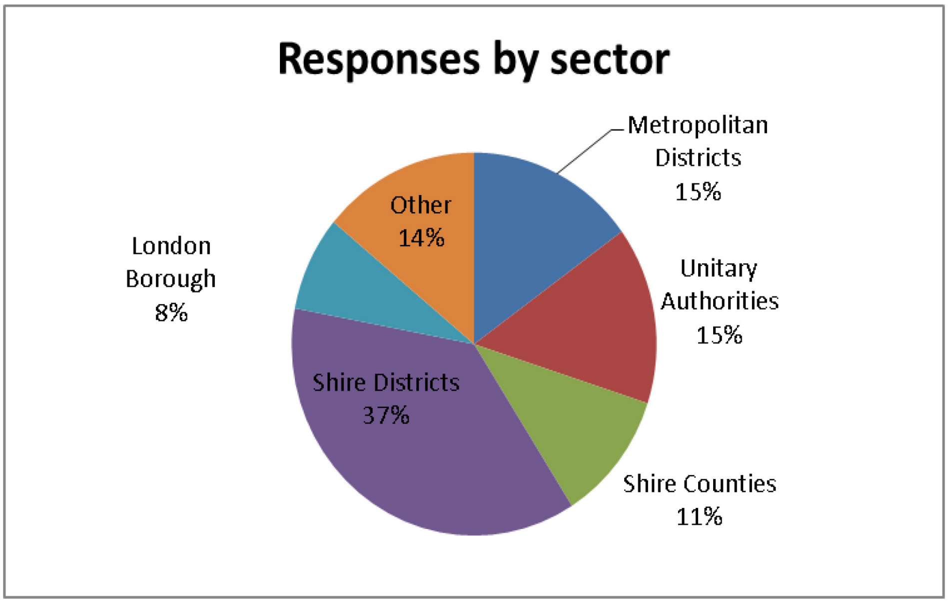
3. Over the past years, the economic and regulatory landscape has changed significantly, along with changes in the borrowing and investing activities of local authorities. We believe that most authorities are behaving sensibly and proportionately but we are also conscious that the current framework needs to be updated in order to improve transparency and support sound decision-making. In addition, the proposed changes to the framework aim to ensure that key individuals in the decision making process have sufficient knowledge and expertise to be able to take sensible decisions. In 2016, relevant comments about skills and capacity were also raised by the Public Accounts Committee.

4. MHCLG has also been monitoring the practices and principles used by local authorities when deciding how much MRP to charge. In addition, in 2016, the NAO value for money report on Local Authorities Capital Investment and Financing discussed the impact that debt servicing costs could have on the financial sustainability of individual authorities and the steps being taken to manage this cost and the matter was briefly discussed at the Public Accounts Committee meeting in Parliament that considered the report.

5. As local authorities are increasingly investing in non-financial yield bearing investments it is important to bring them within scope. The Government recognises that a one size fits all approach is not suitable given the increasing variation in the objectives and nature of local authority investment activity. At the same time, the Government recognises that local authorities have a key role in local economic regeneration, and this may mean that they choose to take on projects that the private sector would not consider. However, it is important that local authorities consider and are transparent about the risks as well as the opportunities of all classes of investment.

6. The consultation closed on 22 December 2017. As part of the consultation process, stakeholder engagement activities took place. As a result of the feedback received during the consultation process, and to help respondents in their consideration of the proposals, a clarification on some aspects proposals on the changes to the Guidance on Minimum Revenue Provision was published on 29 November 2017, and can be found here https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance/prudential-framework-of-capital-finance-qa.

7. A total of 213 responses to the consultation were received. A breakdown of the types of respondents is shown below.



8. The Government is grateful for the views shared during the consultation process and has considered all views in developing the Government response. This document sets out a summary of the responses and an outline of decisions made by Government. As a summary, this paper does not attempt to capture every point made in those responses. A final version of the guidance, reflecting the decisions in this document, is published alongside this document.

9. Following consideration of the consultation responses the Government, in summary, intends to:
   - make some technical changes to the Investments Guidance and the MRP Guidance reflecting respondents' feedback;
   - amend proposals related to the Useful Economic Lives of assets;
   - implement the Investments Guidance for 2018-19, but allow flexibility on when the additional disclosure first needs to be presented to full Council or its equivalent; and
   - defer implementation of MRP Guidance to 2019-20. This is in recognition of the fact that is very late in the 2018-19 budget setting cycle.

   More detailed information on Government's intention for each proposed change can be found in the "summary of responses" section of this document.

Summary of Responses

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability

10. The revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduced some additional disclosures to improve transparency. However, in recognition that the CIPFA consultation on the Prudential Code introduces a new requirement for local authorities to prepare a Capital Strategy, the revised guidance specifically allowed the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Question 1: Do you agree with the proposed change? If not why not; and what alternative would you propose?

11. 202 respondents commented on Question 1. The majority of respondents supported the need to ensure decisions are transparent and that they are made with the necessary due diligence by presenting additional information to enable members to understand their local authority's risk exposure to commercial decisions.

12. A number of respondents expressed the view that the detailed Investment Strategy would best remain as part of the Treasury Management Strategy. Concerns were raised about the need to prepare many different documents that could be burdensome and overload members. Some respondents asked for further clarity regarding the definition of non-treasury investments, to enable authorities to make a clear distinction between non-financial investments and 'business as usual' capital projects.

13. The Government believes that it is important that local authorities take decisions in an open and transparent manner. However, the Government does not want to increase the reporting burden on local authorities. For this reason the Government has revised the Guidance to make it clear that providing all the required disclosures are made and are publicly available, local authorities should have the flexibility to decide how to structure that information.

Principle of Contribution

14. The consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions.

Question 2: Do you agree that it is important for local authorities to disclose the contribution that investment activities make to their core functions? If not why not; and what alternative would you propose?

15. 199 respondents commented on Question 2. Responses showed that the introduction of a new principle requiring local authorities to disclose the extent to which the non-core investments make to the core functions is reasonable and transparent.

16. A number of respondents considered that clarity on defining what constitutes a 'non-core investment' would be needed, especially for circumstances where is difficult to attribute yield from an individual investment to core/non-core functions. Some respondents raised concerns that the proposals in the consultation document could cut across those in the statutory code of practice issued by CIPFA: *"Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition".*

17. The Government believes that it is important that local authorities disclose the contribution that investment activities make towards their objectives. However, in recognition that local authorities will hold investments for different purposes the Government has decided to clarify the term 'core objectives'. The Guidance now makes a distinction between investments held for treasury management purposes and those held for other reasons. The term 'core objectives' has been expanded to read 'service delivery objectives and/or placemaking role.' This clarification has been made to recognise the fact that in addition to their ongoing service delivery responsibilities local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Question 3: Are there any other measures that would increase the transparency of local authority financial and non-financial investments that you would suggest for inclusion in the Investments Guidance to assist scrutiny by the press, local taxpayers and councillors?

18. 198 respondents commented on Question 3. Respondents mentioned that clear separation is needed between investments for treasury management purposes and any other investments. They also suggested that Investment Strategy could summarise any non-treasury investment strategic options that may have been taken or, considered and discounted, including the rationale.

19. A number of respondents commented on the draft guidance, which requires that indicators should allow comparison of "a local authority's decisions to a similar authority". Respondents expressed views that this would impose a major burden on councils and would require such indicators to be imposed nationally. A number of respondents were not in favour of this and suggested that such indicators need to be specified locally.

20. Some respondents thought that the guidance should specify the indicators to be used without setting thresholds. Indicators suggested by a few of respondents included gearing and metrics that allowed third parties to assess the relationship between the risk taken and the availability of contingency resource, General Fund Balance and potential losses which can occur from non-core financial investments. However, the majority of respondents did not suggest any additional metrics.

Use of indicators to assess total risk exposure

21. The consultation sought the views of respondents on whether local authorities should be required to publish indicators that would allow elected members and other interested parties to understand and assess authorities' exposure to risk from borrowing and commercial investment decisions.

Question 4: Do you agree with the introduction of a requirement to enable Councillors to assess total exposure from borrowing and investment decisions? If not why not; and what alternative would you propose?

22. 201 respondents commented on Question 4. A majority of respondents supported the idea of enabling Councillors to assess total exposure from borrowing and investment decisions.

23. A number of respondents expressed the view that details of borrowing decisions would be best left to the borrowing strategy section of the Treasury Management Strategy. Respondents also argued that local authorities might face compliance difficulties with the proposed requirement to state how investments are funded, since local authorities do not disaggregate their balance sheets to associate particular assets with particular liabilities or reserves. Other respondents commented that this principle is already adequately covered by the requirements of other existing indicators.

24. The Government does not agree with those respondents who comment that current publicly available indicators allow members and other interested parties to assess total exposure from borrowing and investment decisions. As a result the final code retains this requirement.

Question 5: Do you agree with the decision not to specify indicators or thresholds? If not why not; and what alternative would you propose?

25. 200 respondents commented on Question 5. A great majority supported giving local authorities the flexibility to decide on which indicators to use and where limits should be set.

26. Respondents commented that different councils will have different risk appetites and it would be more appropriate not to set generic thresholds. A substantial number of responses also highlighted that it would be difficult to compare different LAs if indicators were down to local discretion.

27. The Government believes that local authorities should have discretion to set appropriate indicators and thresholds for local circumstances. The final code recognises that if this is the most important principle, then it may not be possible to select indicators that allow comparability between authorities, and therefore this requirement has been removed.

28. The Government will also address requests for guidance on metrics assessing exposure and proportionality, by including metrics that we expect every local authority will want to use in the non-statutory guidance notes.

Extension of principle of Security, Liquidity and Yield to non-financial investments

29. The consultation sought views on the proposal that where local authorities invest in non-financial assets, they should apply the principles of prioritising security and liquidity over yield in the same way that they are required to do for financial assets.

Question 6: Do you agree with the extension of the principles of security and liquidity to non-financial assets? If not why not; and what alternative would you propose?

30. 199 respondents commented on Question 6. A majority of respondents did not support extending the principles of security, liquidity and yield to non-financial assets. Those that did not agree did not think that liquidity in particular was appropriate for non-financial assets.

31. Respondents noted that the balance between security and liquidity will be different for different types of assets. Non-financial assets need to be looked at differently from Treasury assets as they are held for different purposes.

32. Some of the respondents, who agreed with the extension of these principles to non-financial assets suggested that it should be recognised that yield will be the primary driver for making such decisions.

33. When a local authority enters into a long term financial investment it is exposing taxpayers funds to a different type of risk to those related to service delivery. In addition taking on additional debt creates a long term financial commitment. For this reason the Government believes that it is important that local authorities consider how they would recoup funds committed to non-financial investments.

Question 7: Do you agree with the definitions of liquidity and security for non-financial assets? If not why not; and what alternative would you propose?

34. 191 respondents commented on Question 7. A majority of respondents expressed similar views to Question 6. Generally respondents were concerned about the definitions of liquidity and security for non-financial assets.

35. Respondents noted that property assets are subject to annual variations in market prices, but are held for the long term to meet economic regeneration objectives. Some respondents also commented that liquidity is difficult to be meaningful when applied to property as there is uncertainty that the funds invested can be accessed when needed.

36. In recognition that non-financial investments are, by their nature illiquid, and that local authorities may choose to hold onto investments for a number of years, particularly where they are held to contribute to local regeneration objectives, the Investment Guidance is now explicit that local authorities can determine the relative importance of security, liquidity and yield for different types of investment and can assess liquidity of non-financial assets on a portfolio basis.

Introduction of a concept of proportionality

37. The Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. Given the nature of assets that local authorities are investing in this could leave them exposed to macro-economic trends. For this reason the consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income.

Question 8: Do you agree with the introduction of a concept of proportionality? If not why not; and what alternative would you propose?

38. 198 respondents commented on Question 8. A majority of respondents supported the introduction of a concept of proportionality as being important that local authorities make decisions based on an understanding of the overall risk that they face.

39. Some respondents considered that the dependence of local authorities on commercial income and the amount of borrowing committed to generate that income is already evident from financial planning, budget and investment decision reports considered by council members.

40. Respondents also commented on paragraph 38 of the guidance, which requires measurement of the opportunity cost of using 'borrowing capacity for investment rather than service delivery activity'. They expressed concerns about being able to measure this, as any borrowing for investment will be expected to generate a surplus and therefore would not impact on other borrowing capacity or on revenue budget capacity.

41. The Government believes that explicit consideration of sources of income and relative dependence on these to deliver statutory services is an essential component of sound financial management. In addition, as non-financial investments can be very long term, the level of return generated may significantly vary over time due to changes macro-economic conditions. The Government recognises that requiring local authorities to assess the opportunity costs of additional borrowing does not enhance transparency or understanding of risk so has removed this proposed change.

Borrowing in advance of need

42. The Prudential Code has always prohibited local authorities from borrowing solely to invest in profit making activities rather than to deliver statutory services or strategic objectives. However, a number of local authorities have borrowed to invest in non-financial assets with the sole aim of generating a profit. By bringing non-financial investments within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential and sought views on requiring additional disclosure by local authorities who have borrowed solely to invest in revenue generating investments.

Question 9: Do you agree that local authorities who borrow solely to invest should disclose additional information? If not why not; and what alternative would you propose?

43. 182 respondents commented on Question 9. The majority of respondents agreed with the principle that local authorities should disclose additional information. They also noted that the disclosure of additional information should not impair commercial confidentiality.

44. A few respondents commented that disclosure arrangements should be part of the local management arrangements and no additional formal reporting requirements should be added.

45. A number of respondents expressed the view that the definition of borrowing in advance of need is contrary to the CIPFA Prudential Code and Treasury Management Code and can be confusing. Respondents had different views on what the definition of borrowing in advance of need should be. Some noted that borrowing for investment does not necessarily constitute borrowing in advance of need, and that there were certain circumstances, for example where borrowing in advance of need situations where approved capital expenditure is forecast and a decision to borrow early is made either to secure an advantageous interest rate or to reduce interest rate risk, where borrowing in advance of need could deliver better value for money. Some respondents argued that funds that are borrowed and immediately spent on an investment property are currently counted as capital expenditure and therefore can be supported by borrowing.

46. Whilst the Government recognises that there may be cases where local authorities may choose to borrow in advance of need to achieve value for money in its Treasury Management activities, it is clear that borrowing in advance of need solely to generate a profit is not prudential. This is irrespective whether the borrowing is used to finance the acquisition of financial or non-financial investments. To make this clear the Guidance now mirrors the wording in the statutory code of practice, issued by CIPFA: *The Prudential Code for Capital Finance in Local Authorities, 2017 Edition ("the Prudential Code").*

47. Despite the fact that the wording on borrowing solely to generate a profit is unchanged from the 2011 edition of the Prudential Code, the Government is aware that some local authorities are engaged in this practice. For this reason, the Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance.

48. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

Capacity, skills and culture

49. The consultation sought views on extending requirements in the Investments Guidance to disclose the steps Treasury Management professionals have taken to ensure that they have sufficient knowledge and expertise to be able to take sensible decisions to statutory officers, Councillors and other key individuals in the decision-making process.

Question 10: Do you agree with the extension of the disclosure requirement on steps taken to secure sufficient expertise to include all key individuals in the decision making process? If not why not; and what alternative would you propose?

50. 202 respondents commented on Question 10. Responses showed that there was a split of views on this proposal. A number of respondents supported the principle of governance arrangements that would ensure appropriate decisions are made having due regard to expertise.

51. A number of respondents were concerned that this proposal seemed to add burden on local authorities. Respondents raised concerns that the disclosure went beyond the requirements specified in MiFID II[1], should local authorities wish to 'act up' to professional investor status and suggested that the disclosure requirement should be aligned with local decision making and specified locally.

52. It is important to note that the Investments Guidance does not specify what activities elected members and others need to undertake to be informed decision makers. This remains an area where local authorities have discretion. Therefore the Government does not agree that this proposal goes beyond the requirements to 'opt up' under MiFID II.

53. In deciding to leave this requirement in the Investment Guidance, the Government took account of the fact that locally elected members are ultimately accountable to local residents through the ballot box, for decisions taken by their local authority. Therefore, it is right that locally elected members have sufficient background and information to understand the financial risks that they are exposing their local authority to as a result of approving new investments. However, we have clarified that the requirement to include commentary on training only extends to those elected members and statutory officers who have responsibility or will be held accountable for investment decisions.

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[1] Markets in Financial Instruments Directive II was implemented into UK law with effect from 3rd January 2018

Minimum Revenue Provision Guidance

Definition of ‘Prudent Provision’ in the MRP Guidance

54. Local authorities are normally required each year to set aside some of their revenues as provision for debt (‘minimum revenue provision’ or MRP). More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

55. The consultation proposed changing the definition of prudent provision to one that requires local authorities to set MRP in a way that covers the gap between the Capital Financing Requirement (CFR) and the amount of that requirement that is funded by income, grants and receipts. This was with the intention of ensuring local authorities are able to better align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides a benefit.

Question 11: Do you agree with the change to the definition of the basis of MRP? If not why not; and what alternative would you propose?

56. 204 respondents commented on Question 11. Responses showed that there was a split of views on this proposal. A number of respondents supported the change to the definition of the basis of MRP.

57. A number of respondents commented that the current application of MRP works appropriately and there is no reason for change. Some respondents noted that the proposed definition is confusing as the CFR comes about from unfinanced capital expenditure, which is already net of grants and capital receipts.

58. The Government is of the view that there are two conceptual bases for MRP. It can be seen as providing for net debt taken out over its lifetime (particularly where the asset is purchased for investment purposes) or as a proxy for depreciation (where the asset is primarily for service purposes, that is the economic benefits generated by debt financed assets over their lifetime. The wording in the MRP Guidance aims to cover both of these.

Meaning of a charge to the revenue account

59. There have been some reports of local authorities who have determined that they have previously overpaid and as a result have made a credit to the account for MRP. The Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations (Regulation 27 of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).* For this reason, the consultation sought views on the proposal that a charge to the account should not be a negative charge.

Question 12: Do you agree that the Guidance should clarify that a charge to an account cannot be a credit? If not why not; and what alternative would you propose?

60. 198 respondents commented on Question 12. A majority of respondents welcomed the clarification.

61. A number of respondents expressed the view that local authorities should be able to retain the flexibility to review MRP and in case where an over provision for MRP in previous years is made, should be credited back.

62. Respondents also noted that there may be circumstances where an authority has under estimated the period over which an asset and it would be appropriate to either have a negative MRP charge, or to take an MRP holiday.

63. Regulation 28 of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003* as amended uses the terminology “charge to a revenue account”. All the MRP Guidance does is clarify what the intent of the Regulation is.

Impact of changing methods of calculating MRP

64. The Government has concerns that some local authorities have been changing methodologies, not because the change would better allow them to make prudent provision, but instead to reduce their annual charge and in some cases to allow them to defer payments into future years, which it foes not consider to be prudent. The consultation therefore sought views on proposals for clarifying the approach to be adopted when changing the methodologies used to calculate MRP.

Question 13: Do you agree that changing MRP methodology does not generate an overpayment of MRP? If not why not; and what alternative would you propose?

65. 202 respondents commented on Question 13. A majority of respondents noted in cases where changing MRP methodology could generate an overpayment of MRP the local authority should be able to revisit its original decision and make amendments to future years’ charges. Some respondents suggested that there should be flexibility to be credited back to the local authority. Respondents also noted that revising and re-profiling historical MRP policies may allow a more prudent approach which provides greater fairness to current and future council tax payers.

66. A number of respondents argued that a change of MRP calculation method should usually apply prospectively and not retrospectively.

67. The Government believes that it is prudent to treat a change in MRP methodology in a similar way to that which a local authority would use when changing its depreciation policy under proper accounting practices. This is because the Government does not believe that it is prudent to defer costs into future years, simply due to a technical accounting change. It

is important to note that under the revised MRP Guidance, changing MRP methodology revising and re-profiling historical MRP policies will still result in a lower annual charge.

68. However, local authorities will be prevented from taking all the benefits up-front, thereby leaving future council tax payers with higher costs or exposing the local authority to repayment risks.

69. The Government agrees that the changes to MRP should be prospective and has already clarified this. The Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology. Where a local authority has changed the methodology that it uses to calculate prudent provision and generated what the current guidance calls an 'overpayment' it can continue to incorporate that overpayment into future calculations of prudent provision.

70. Where a local authority has selected a long asset life for borrowing or has decided not to charge MRP on non-Housing Revenue Account debt, we would expect the calculation of future year's MRP to be made under the new Investments Guidance. If a local authority feels that it needs to adjust the useful economic lives that it is basing its MRP charge on, then that adjustment should only be applied to future year's calculations.

71. Detailed guidance on transition arrangements will be provided in the non-statutory explanatory notes to the MRP Guidance.

Introduction of a maximum economic life of assets

72. 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. The consultation therefore sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets.

Question 14: Do you agree that the guidance should set maximum useful economic lives for MRP calculations based on asset life? If not why not; and what alternative would you propose?

Question 15: Do you agree with the maximum useful economic lives selected? If not why not; and what alternative would you propose?

73. 201 respondents commented on Question 14. A number of respondents were of the view that this proposal was in principle sensible. Some of these respondents noted that this could be used as a proxy and still allow for longer lives to be adopted where it is evidenced by proper external valuation.

74. 201 respondents commented on Question 15. A large number of respondents expressed different views to the proposed length of the maximum useful economic lives. A number of respondents noted that the selected maximum useful economic lives seem to be short. They also suggested that it would be useful to make clearer that regulation requires each local authority to set its own MRP policy having had regard to guidance and that a more flexible approach allowing an appropriate and supported asset life to be used may be more suitable.

75. Those who expressed concern about the proposal commented that rigid application of maximum lives will often not be reflective of the underlying life of the assets. These respondents also noted that the useful life of an asset should be determined locally by those with the appropriate knowledge and skills able and include any local factors that could affect useful asset lives.

76. Those who supported the proposal in principle tended to opine that a 50 year maximum life was appropriate. Some of the supportive views noted that the years specified in the guidance would be better to be seen as a guide in order to provide flexibility to take account of specific local conditions. They also suggested in cases where longer terms than the proposed have already been agreed with local auditors as being prudent should continue to be used and not apply retrospective adjustments. Some of the supportive respondents raised concerns that some local authorities were not providing MRP on debt financed investment properties using the rationale that these assets do not normally need to be depreciated under generally accepted accounting practice.

77. The Government suggested 50 years as the maximum life that can be used to calculate MRP for two reasons. Firstly, this is the suggested life for depreciating freehold land used in generally accepted accounting practice; and secondly, it is the maximum length of debt issued by the Public Works Loan Board. However, the Government recognises that there may be valid reasons why a local authority has selected a useful life of more than 50 years. Therefore, the MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years. In these two scenarios a local authority will be able to set a useful life that is commensurate with the length of the PFI debt or the length that the asset will deliver benefits for as appropriate.

78. The Government has also introduced a new paragraph stating that local authorities must include long term liabilities entered into to acquire investment properties in their calculations of MRP and to make it explicit that the depreciation method of calculating MRP is not appropriate for assets that do not attract depreciation under generally accepted accounting practice.

Implementation timetable

Question 16: Do you agree that the codes should be implemented in full for 2018-19? If not, are there any specific proposals where implementation should be deferred, and what would be the implications of not doing so?

79. 195 respondents commented on Question 16. A majority of respondents expressed the view that an implementation of the codes for 2019-20 would be more practical and would provide councils with sufficient time to consider their budget strategies and adapt to the changes. A number of local authority respondents presented evidence demonstrating that it would be challenging to make the additional provision required by the revised MRP Guidance so late in their budget setting cycle. Those respondents that wanted implementation to be deferred asked for certainty as far in advance of the implementation date as possible.

80. A few respondents supported the implementation of the codes for 2018-19. Some of those respondents expressed the view that updated guidance should be finalised and published as soon as possible to allow local authorities sufficient time to implement the changes prior to commencement of the 2018-19 financial year.

81. Some respondents also commented that the MRP guidance could be published on the basis that is advisory for the 2018-19 financial year.

82. Given the increasing scale and complexity of local authority commercial activity, the Government believes that it is important that requirements of the Investments Guidance are brought in as soon as possible. For this reason they will apply from 1 April 2018. However, the Government recognises that many local authorities will already have finalised the strategies and budgets that will be presented to Budget Councils for approval. For this reason the Government will allow local authorities who determine that they would face significant challenges in preparing the disclosures required by the Investments Guidance to defer inclusion to the first strategy presented after 1 April 2018.

83. The Government wants to provide local authorities with certainty and does not want to do anything that will make it harder for local authorities to set budgets for 2018-19. For this reason, whilst the MRP Guidance published alongside this response should be considered final, implementation of the MRP Guidance will be deferred to the 2019-20 financial year. However, early adoption is encouraged.