



Ministry of Housing,
Communities &
Local Government

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Dame Meg Hillier MP
Chair
Public Accounts Committee
House of Commons
London
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14 June 2021

Dear Meg,

PAC HEARING INTO AUDIT DELAYS FOLLOW UP

As promised, I am writing to update the Committee in response to Sir Geoffrey Clifton-Brown's query at the Hearing on 20 May as to whether guidance had been produced on securitisation or the sale of future revenues by local authorities.

Securitisation falls within the scope of the Prudential Framework (the Framework), which comprises the legislation and four statutory codes that set the bounds for local authority borrowing and investment. Securitisation transactions were brought into the Framework in 2012 through changes to the Local Authorities (Capital Finance and Accounting) 2003 Regulations (the Regulations). These changes were made in response to the 2011 Localism Act that introduced the general power of competence for local authorities. Prior to this, securitisation was considered ultra vires for councils as there were no explicit or clear implicit powers available, and so no provision was deemed necessary in the Framework.

The 2012 changes to the 2003 Regulations designated securitisation as a form of 'credit arrangement'. Under the Framework, credit arrangements are a form of borrowing whereby the authority commits to a long-term revenue cost in return for an immediate gain, for example, arrangements such as PFI deals and certain types of leases. The Framework considers securitisation to achieve the same result as borrowing: a substantial sum is raised for immediate expenditure in return for giving up long-term revenue income.

Under the Framework, securitisation transactions must comply with the statutory requirements as all other forms of borrowing, including the duty for the local authority to ensure the arrangements are affordable. Further, under the Local Government Act 2003, local authorities are required to have regard to the four statutory codes that are produced by MHCLG and CIPFA. While the codes do not provide specific guidance on securitisation, they do provide principles intended to cover all forms of prudential borrowing and which set out best practice for ensuring that local authority transactions are prudent, affordable and sustainable.

In accounting for securitisation transactions, local authorities are required to follow the Code of Practice on Local Authority Accounting (the Code), which constitutes proper practices for councils. The Code is based on International Financial Reporting Standards. Insofar as it is within the external auditor's remit and duties, we would expect the auditor to raise any issues

such as potentially unlawful expenditure or matters concerned with the councils' governance through their work reviewing the council's Value for Money arrangements.

It remains for the local authority to ensure that capital decisions are lawful and appropriately comply with the Framework's statutory code and meet the best value duty. However, commensurate to our role as steward of the capital framework, we are improving our monitoring of sector capital activity through the capital strategy and will consider what further changes are needed to the Framework should new risks emerge. This follows the PAC report on local authority commercial investment in July 2020, and Government's response to the Committee's recommendations in the Treasury Minutes (September 2020). The Government remains committed to providing further updates to the Committee on its progress in delivering the capital strategy.

I hope this reply provides the Committee with the information requested by Sir Geoffrey.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Catherine Frances', with a long horizontal flourish extending to the right.

CATHERINE FRANCES