**CIPFA warns councils on commercial activity**

**CIPFA is to work on fresh guidance over concerns councils in England are putting public funds at “unnecessary or unquantified risk” when borrowing to invest in commercial property.**

**In a statement today, CIPFA suggested local authorities were investing in commercial properties disproportionately to their resources. This would be against the requirements of the CIPFA’s Prudential Code and Treasury Management code, the joint statement from CIPFA chief executive Rob Whiteman and chair of CIPFA’s treasury and capital management panel Richard Paver, said.**

**Whiteman and Paver said that “in some cases these investments have been financed by borrowing” and CIPFA shared concerns there had been an “acceleration of the practice of borrowing to invest in commercial property”. They warned councils the “prime policy objective of a local authority’s treasury management investment activities is the security of funds, and that a local authority should avoid exposing public funds to unnecessary or unquantified risks”.**

**CIPFA’s code and the government’s** [**Statutory Guidance on Local Government Investments**](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf) **were “very clear that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed”. The institute will “issue more guidance and will make it clear that these investment approaches are not consistent with the requirements of fiscal sustainability, prudence and affordability,” the statement said.**

**Government figures released last week showed an** [**increase in local authorities’ commercial activities.**](https://www.publicfinance.co.uk/news/2018/10/mhclg-data-spotlights-sharp-rise-councils-commercial-activity)[**English councils’**](https://www.publicfinance.co.uk/topics/local-government) **acquisition of land and buildings rose by £1.2bn (43.1%) to £4bn in 2017-18 from £2.8bn in 2016-17, the Ministry of Housing, Communities and Local Government** [**data**](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/748292/Local_Authority_Capital_Expenditure_and_Receipts__England_2017-18_Final_Outturn.pdf) **revealed. Total borrowing by councils in England had risen from £4.4bn in 2013-14 to £10bn in 2017-18.**

**The guidance is expected to be published before the end of the year. Until it is released, CIPFA advised local authorities to refer to the government guidance, which cautions local authorities against:**

**- Becoming dependent on commercial income;**

**- Taking out too much debt relative to net service expenditure; and**

**- Taking on debt to finance commercial investments.**

**The MHCLG figures out last week showed the largest investors in commercial property were Spelthorne Borough Council at £270m and Warrington Borough Council with £220m. Eastleigh Borough Council also spent £194m.**

***PF* understands that MHCLG and the Treasury have expressed concern about the scale of commercial property investment.**

**MHCLG has been contacted for comment.**

**Dominic Brady**

***PF* reporter**

**18 Oct 2018**