CYNGOR SIR *POWYS* COUNTY COUNCIL

CABINET EXECUTIVE

16th January 2018

REPORT AUTHOR:	**County Councillor Aled Davies**
	Portfolio Holder for Finance
SUBJECT:	**Changes to the Minimum Revenue Provision**
REPORT FOR:	**Decision**

1. **Summary**

1.1 This report considers the implications of changing the Authority's Minimum Revenue Provision (MRP) policy in order to provide a more prudent approach whilst generating annual revenue savings.

1.2 The financial implications are summarised below and allow for up to £4,624k to be used in 2017/18 to offset the deficit and provide one off savings for a further three years.

2. **Background**

2.1 MRP is the annual charge that local authorities are required to make for the repayment of their debt liability in respect of capital expenditure funded by borrowing, for both the General Fund and Housing Revenue Account Debt.

2.2 This capital expenditure is set out as part of the calculation of the Authority's Capital Financing Requirement (CFR) and forecasts updated regularly to reflect changing borrowing needs and the resulting costs.

2.3 The Prudential Code was originally implemented in 2003, prescribing how much MRP an authority should charge, linked to its CFR. A radical overhaul of the system through the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 shifted the emphasis from regulation to guidance on the calculation of the General Fund MRP, based on prudence.

2.4 Subsequent regulatory changes in 2010 offer more discretion in calculating MRP, and the guidance set out recommendations rather than prescriptive requirements. Key, however, is still the requirement for a prudent provision to be made to ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits.

2.5 The legislation does not define what constitutes a "prudent provision". However the MRP guidance issued by the Secretary of State (WG) interprets the term and provides some ready-made examples of acceptable methods for calculating a prudent level of MRP.

2.6 Following an MRP review, Council approved an amended MRP policy to be applied for the 2015/16 financial year and beyond, based on the following:

- **MRP on Supported Borrowing** (i.e. borrowing that receives central government support through the RSG) from a 4% reducing balance method to a 2% straight line calculation for supported borrowing. This generated a saving of £3m and reduced the time taken to extinguish the debt.

- **MRP on Unsupported Borrowing** (i.e. on borrowing that doesn't receive central government support, locally known as "Prudential Borrowing") this charges MRP on Prudential Borrowing over the life of assets. Use the asset life method for current and future years' calculation of prudential borrowing MRP for both the General Fund and HRA.
- The HRA CFR, which is a combination of historic and settlement debt, would be subject to the 2% reducing balance method calculation.
- For assets under construction, the MRP is allowed to be deferred until the asset is operational so the MRP matches the useful life of the asset.

3. Proposal

3.1 The Authority has worked with its Treasury Advisors to review the calculations on MRP. The review has identified some aspects of the calculations that can be revised.

3.2 Adjustment A

3.2.1 Adjustment A was part of the changes implemented back in 2003 for calculating MRP, to ensure the level of liability remained broadly consistent with the previous system of capital controls.

3.2.2 The Advisors have verified the accuracy of the Adjustment A calculation, and can confirm that long term investments and debtors could be included as part of the CFR. To do this would result in an annual saving of £48k which can be made over the next 50 years. A one off benefit can be taken by the Council in 2017/18 of £624k which equates to the annual reduction of £48k backdated over 13 years.

3.3 Supported Borrowing

3.3.1 As has been explained, the Authority has revised the method of calculation to 2% straight line for the General Fund, for debt going forward. The review has identified that the current years MRP liability can be recalculated retrospectively for the period between 2007/8 and 2014/15 in order to facilitate the appropriate starting point for 2015/16.

3.3.2 This recalculation demonstrates prudence, in that the debt liability will be repaid eight years earlier, and effectively moves the start point of the 50 years useful asset life back to 2007/08. This means that the debt liability will be reduced to nil in 2057, rather than in 2065. Over the years 2007/08 to 2016/17, the Authority would have charged a total of £19.988m less MRP on the General Fund CFR balance as at 2007/08 if it had adopted the 2% straight line method on its historic/supported debt in 2007/08 (Clarification of these numbers required?)

3.3.3 It will also release non recurrent savings of £19.988m over a phased period by a reduction in the MRP charge over the next four years.

- 2017/18 £4m
- 2018/19 £5m
- 2019/20 £5m
- 2020/21 £5m
- 2021/22 £0.988m

3.3.4 The reduced MRP charge for the aforementioned years can be used to support services. But in 2021/22 the Authority's FRM must reflect the financial impact as a pressure.

4. Potential Impact

4.1 The adjustments to the MRP policy will lead to a higher CFR initially, and the annual CFR calculation will need to be clear about additional requirements through the FRM, married against the capital scheme priorities, deliverability and affordability. Because the MRP is not now set aside but released to fund service pressures, there will be less cashflow within the Authority's balances. This results in a real cost from the loss of interest on investments from balances, which at the moment is negligible, but may be higher in years to come as interest rates rise.

4.2 It is important to recognise however that this will not affect the Authority's actual debt repayments or actual debt outstanding which will remain unchanged. MRP is the statutory amount required to be charged to the revenue account each year to represent debt repayment and the CFR is a measure of indebtedness rather than actual debt.

4.3 The Welsh Government acknowledged within the latest issued MRP guidance that is for councils and not Welsh Government to determine whether a proposed arrangement meets the statutory duty to make a prudent revenue provision. This stance was re-affirmed by Welsh Government when the Authority revised its MRP policy in 2015/16.

4.4 The Wales Audit Office (WAO) has similarly stated that it is not within their remit to determine what prudent provision is. Their attention is focused on the procedural aspects, mainly that the proper approval process has been adopted in any policy change. WAO also have a responsibility to consider whether there are any matters which come to their attention during the audit of the statutory accounts that should be brought to the attention of the public. This responsibility includes consideration of whether or not the Authority has complied with its statutory duties. WAO will therefore consider the approach taken by authorities in setting MRP.

4.5 The Wales Audit Office (WAO) have considered the "Well-being of Future Generations (Wales) Act 2015 in relation to MRP and the importance of balancing short term needs with the need to safeguard the ability to meet the longer term needs. The proposal to repay debt eight years earlier demonstrates consideration of the Wellbeing of Future Generations Act (Wales) 2015, so future generations are relieved of the debt burden over a shorter time period. WAO have been fully briefed about our proposals and the profiling of the use of the savings.

5. Options Considered/Available

5.1 The review has provided a clear and beneficial alternative approach to the current method of calculation. The alternative is to keep the existing MRP policy in place and make no further adjustments.

6. Preferred Choice and Reasons

6.1 The preferred choice is to accept the recommendations as set out in this report.

7 Impact Assessment

7.1 Is an impact assessment required? Yes/**No**

8. **Local Member(s)**

8.1 Not applicable

9. **Other Front Line Services**

9.1 Not applicable

10 **Communications**

10.1 This report has no specific communication considerations.

11. **Support Services (Legal, Finance, HR, ICT, BPU)**

11.1 The Finance Function has worked closely with the Treasury Advisors and has provided necessary information for the validation of Adjustment A and borrowing. They recognise the importance of adjusting MRP and to do the necessary work in the accounts if approved.

11.2 Legal -

12 **Scrutiny**

12.1 Has this report been scrutinised? Yes / **No**

13 **Statutory Officers**

13.1 The Head of Financial Services (Acting Section 151 Officer) has provided the following comment:

Although our existing policy was amended in 2015, it is important to continue to review it to ensure a prudent approach is maintained that complies with necessary regulations.

Our Treasury Advisors have provided a prudent option that also provides savings, whilst remaining within necessary regulations.

We are aware that other authorities are making similar changes to our policy proposals and we are liaising with Wales Audit Office to ensure they are aware and endorse our policy changes. Their attention will focus on ensuring proper approval processes have been undertaken in agreeing to any change.

The Monitoring Officer has no specific concerns with this report.

14 **Members' Interests**

14.1 The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest they should declare it at the start of the meeting and complete the relevant notification form

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Recommendation:	**Reason for Recommendation:**
a. **Revise Adjustment A calculation to include long term investments and debtors to release an annual saving of £48k which can be made over the next 50 years. A one off benefit can be taken by the Council in 2017/18 of £624k which equates to the annual reduction of £48k backdated over 13 years.** b. **Amend the MRP policy to allow the utilisation of the method of calculation to 2% straight line for the General Fund, for recalculating MRP retrospectively for the period between 2007/8 and 2014/15** c. **Agree a prudent managed approach for the use of the savings generated by releasing them over a phased four year period to support the deficit recovery plan and future FRMs**	**Adjustment A calculations and policy amendments that allows prudence whilst delivering savings to support the deficit recovery plan and future years FRMs**

Relevant Policy (ies): MRP Policy		**Financial Regulations Yes**	
Within policy:	Yes	**Within Budget:**	Yes
Relevant Local Member(s):			
Person(s) To Implement Decision:		Jane Thomas	
Date By When Decision To Be Implemented: 2017/18		Ongoing	

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