CYNGOR SIR *POWYS* COUNTY COUNCIL.

Council
23rd February 2017

REPORT AUTHOR: **County Councillor Wynne Jones**
Portfolio Holder for Finance

SUBJECT: **Minimum Revenue Provision Annual Statement 2017/18**

REPORT FOR: **Decision**

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1. Summary

1.1 This report is a statutory requirement required under Local Authority regulations when revising the method used to calculate the Minimum Revenue Provision for 2017/18.

2. Proposal

2.1 The Capital Financing Requirement (CFR) is the amount of capital expenditure that is not financed from revenue resources, capital grants and other contributions and capital receipts. Any expenditure that is not financed from these resources increases the authority's underlying need to borrow. The authority has to plan to finance the increase in the CFR by setting aside resources. This is called the Minimum Revenue Provision (MRP).

2.2 Regulation 21 (Local Authorities Capital Finance and Accounting (Wales) Regulations 2003) places a requirement on local authorities in respect of calculating MRP.

2.3 Regulation 22 details how MRP should be calculated. In 2010 WG issued statutory guidance which set various options for calculating prudent provision. This is set out in Appendix 1. In the new Regulation 22, the previous detailed rules are replaced with a simple duty for an authority each year to make an amount of MRP which it considers to be "prudent".

2.4 The regulation itself does not define "prudent amount". However, the MRP guidance makes recommendations to authorities on the interpretation of that term.

2.5 One of the methods in the guidance is the Regulatory method with a 4% reducing balance set aside. In reviewing the MRP calculation it is essential to give proper regard to the statutory guidance and if amending the policy which results in an option that is different to the guidance then the implications of adopting the new option must be made clear. This report sets out both the negative and positive aspects of changing the policy for consideration.

3. Supported Borrowing

3.1 It is recommended to continue to calculate the MRP on a 2% on a straight line basis for borrowing Council Fund debt previously financed from supported borrowing or credit approvals. The estimated amount for 17/18 is £3.069m. The actual figure will be calculated in June 2017.

3.2 The advantage of the straight line basis is that the debt is extinguished over a 50 year period. In comparison the same debt on a 4% reducing balance would take 75 years to extinguish. The second advantage is greater certainty about the amount of debt.

4. Prudential Borrowing

4.1 It is recommended that for any Prudential Borrowing undertaken in the current or future years the MRP will be charged over a period which is the estimated life of the asset using the annuity method. In 2017/18 this MRP is estimated to be £1.6m and the actual amount will be finalised after the accounts have closed in May 2017.

4.2 Estimated life periods will be determined under delegated powers. Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the components of expenditure and will only be divided up in cases where there are two or more major components with substantially different economic lives.

5. Housing Revenue Account (HRA)

5.1 The share of the Housing Revenue Account (HRA) Capital Financing Requirement is subject to a 2% reducing balance MRP and is currently estimated at £1.691m for 2017/18. This is a combination of historic debt, the estimate subsidy settlement.

5.2 The HRA MRP for prudential debt will be calculated using the asset life method and is estimated at £161k for 2017/18.

6. Assets Under Construction

6.1 In addition the guidance allows for MRP to be deferred for assets under construction and this part of the guidance should be adopted because the asset is not used by the authority until it is operational and therefore the MRP will match the life of the asset. This option reduces the MRP by an estimated £194K for 2017/18.

6.2 Any MRP requirement for finance leases or PFI schemes will be regarded as being met by a charge equal to the rent/charge that goes to write down the balance sheet liability. The authority has recognised some leases as finances leases under the IFRS.

7. Options Considered/Available

7.1 A detailed review was undertaken by external consultants on the method of calculating the MRP. The advice provided has given assurance about the proposed change.

8. Local Member(s)

8.1 Not applicable

9. Other Front Line Services

9.1 Not applicable

10. Support Services (Legal, Finance, Corporate Property, HR, ICT, BPU)

10.1 The Finance function has been closely involved in the review and confirms the data included in the report.

11. Legal – The recommendations can be supported from a legal perspective

12. Corporate Communications

12.1 No proactive communication action required.

13. Statutory Officers

13.1 The Strategic Director Resources (Section 151 Officer) comments as follows:

It is appropriate that we have considered our existing MRP policy and the amendment follows external review and the report recommends a prudent approach that complies with regulations.

Several councils have recently reviewed their own MRP policies and have adopted an alternative to the 4% reducing balance (regulatory method) of calculating MRP for previously supported General Fund borrowing.

The Auditor General recently wrote to all welsh authorities confirming that the adjustment to policy is a matter for local determination. We have informed our external auditor of the change.

In reviewing the policy to MRP calculation proper regard has been given to the statutory guidance. The use of the council's external treasury management advisor has developed options and the implications of the change. These have been considered in reaching the recommendation in the report.

13.2 The Solicitor to the. Council (Monitoring Officer) has commented as follows:
"I note the legal comment and have nothing to add to the 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.

Recommendation:	Reason for Recommendation:
1. To use a 2% straight line calculation for MRP in relation to Supported Borrowing.	**Statutory Requirement**
2. To use Option 3 Asset Life Annuity Method for the calculation of MRP in relation to Prudential Borrowing.	**Statutory Requirement**
3. To use a 2% reducing balance for MRP in relation to Historic and the Settlement Debt for the HRA	**Statutory Requirement**
4. To use Option 3 Asset Life for the calculation of MRP in relation to Prudential Borrowing for the HRA	**Statutory Requirement**

5. To take advantage of the guidance that allows for MRP to be deferred for assets under construction.	**To match the cost of MRP to the use of an asset by a service.**

Relevant Policy (ies):			
Within Policy:	**Y**	**Within Budget:**	**Y**

Relevant Local Member(s):	

Person(s) To Implement Decision:	**Strategic Director Resources**
Date By When Decision To Be Implemented:	**1st April 2016**

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Appendix 1

What is a Minimum Revenue Provision?

The Capital Financing Requirement (CFR) is the amount of capital expenditure that is not financed from revenue resources, capital grants and other contributions and capital receipts. Any expenditure that is not financed from these resources increases the authority's underlying need to borrow. The authority has to plan to finance the increase in the CFR by setting aside resources. This is called the Minimum Revenue Provision (MRP).

Government Guidance

The introduction of the Prudential Code, implementing regulations 21 and 22 of the Local Authorities Capital Finance and Accounting (Wales) Regulations (2003) prescribed how much MRP an authority should charge through a formula linked to the capital financing requirement (CFR). This was calculated as 4% of the opening CFR for the GF and 2% of the opening CFR for the HRA.

This system was radically revised in 2008 by the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008, which shifted the emphasis from regulations to guidance primarily in relation to the General Fund (the duty to make MRP on housing assets remained unchanged). The new system and accompanying guidance were issued in March 2008 and became effective from 1st April 2007, so that for 2007-08 and subsequent years, the prescriptive MRP calculation was replaced with a requirement that local authorities calculate a level of MRP they consider to be prudent. The Authority implemented the changes to the regulations in 2009/10 following the approval of new policies by the Council.

These current regulations and supplementary Welsh Government MRP guidance, the latest of which was published in April 2010, therefore offer authorities significantly more discretion in deciding upon the amount of MRP. The regulations require authorities to "have regard" to the guidance and the recommendations within it. In principle, an authority is now only required to make a "prudent provision" in respect of its ongoing MRP charge, and to arrange for its debt liability to be repaid over a similar period to that which the asset associated with the capital expenditure provides benefits or, in the case of borrowing supported by RSG, in-line with the period implicit in the determination of that grant (ie. 4% p.a. with respect to the General Fund and 2% p.a. in relation to the HRA. Section 3.7 of this report details the options now available to the Authority with regards HRA MRP following the HRA settlement in April 2015 and the revised Item 8 Determinations that accompanied this.

The type of approach intended by the MRP guidance is clearly to enable local circumstances and discretion to play a part, as the guidance in general contains a set of recommendations rather than representing a prescriptive process. The guidance makes it clear that councils can follow an alternative approach, provided they still make a prudent provision.

The recommended options under the Guidance are:

Option 1 - Regulatory method
This option allows MRP to be based on the same formula used in the previous regulations (Regulation 22), namely 4% of the adjusted CFR (i.e. adjusted for Adjustment A, the HRA CFR or any other adjustments emanating from S.I. 2007 No. 1051 (W.108)). This method should only be adopted for an authority's historic debt liability as at 31 March 2008 or for new "supported" capital expenditure applied within the year. It is important to note that the guidance states that this option may be used for new "supported" capital expenditure after 1st April 2008 but does not have to be. It is open to the Authority to decide whether an alternative option is considered more appropriate for any financial year.

Option 2 –CFR Method
This is a simplified version of Option 1, which provides for MRP to be calculated solely on the non-housing element of the CFR. It therefore ignores any adjustment to the CFR for "Adjustment A". For most authorities this method would probably result in a higher level of provision than that under Option 1, although it is a more simplistic approach technically.

Option 3 – Asset Life Method

Under this option MRP is aligned to the estimated life of the asset for which the underlying need to borrow is undertaken. This method is suggested for all new "unsupported" borrowing but can, if desired, be applied for "supported" borrowing as well. The charge is recommended to be applied either on a straight line basis or by using the annuity method. The annuity method is intended to have the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

The guidance recommends that whatever period is chosen at the outset must remain as the chosen life period. Informal commentary to the guidance states only that such provision should be made "over a period bearing some relation to that over which the asset continues to provide a service".

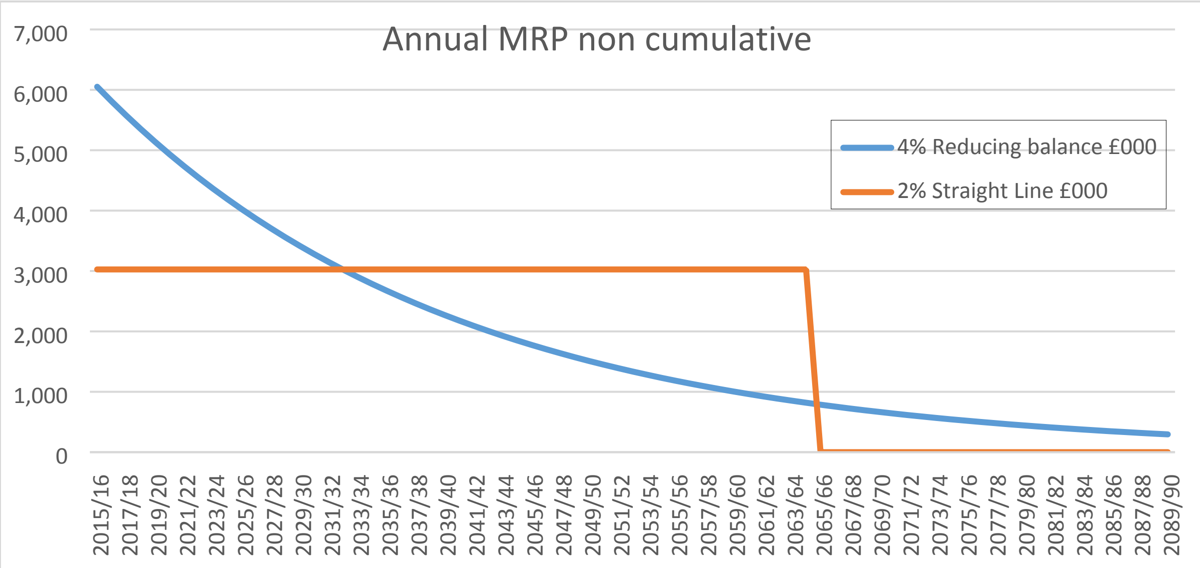
Significantly, under option 3 (and option 4), MRP does not have to be charged until the financial year following that in which the asset is completed and becomes operational.

Option 4 – Depreciation Method

This option is a more complex version of option 3. MRP is matched to the provision for depreciation, or appropriate proportion thereof, for the associated asset based on standard accounting practice. It therefore takes in consideration the residual value of an asset as well as any revaluations and impairments. MRP should continue to be made annually until the cumulative amount of the provision is equal to the expenditure originally financed by borrowing.

The Regulations also require authorities to prepare an annual statement of their policy on making MRP for submission to their full council (or closest equivalent level) for scrutiny and approval before the start of the financial year. The original statement may be revised during the year by the full Council or the appropriate body of Members where required.

Appendix 2 Illustration of MRP over time using 2% straight line approach compared with a 4% reducing balance method



Year	4% Reducing balance £000	2% Straight Line £000	Cost/ (Saving) £000
2015/16	6,051	3,026	(3,026)
2016/17	5,809	3,026	(2,784)
2017/18	5,577	3,026	(2,551)
2018/19	5,354	3,026	(2,328)
2019/20	5,140	3,026	(2,114)
2020/21	4,934	3,026	(1,908)
2021/22	4,737	3,026	(1,711)
2022/23	4,547	3,026	(1,522)
2023/24	4,365	3,026	(1,340)
2024/25	4,191	3,026	(1,165)
2025/26	4,023	3,026	(997)
2026/27	3,862	3,026	(837)
2027/28	3,708	3,026	(682)
2028/29	3,559	3,026	(534)
2029/30	3,417	3,026	(391)
2030/31	3,280	3,026	(255)
2031/32	3,149	3,026	(123)
2032/33	3,023	3,026	3
2033/34	2,902	3,026	123
2034/35	2,786	3,026	240
2035/36	2,675	3,026	351
2036/37	2,568	3,026	458
2037/38	2,465	3,026	561
2038/39	2,366	3,026	659
2039/40	2,272	3,026	754

2040/41	2,181	3,026	845
2041/42	2,094	3,026	932
2042/43	2,010	3,026	1,016
2043/44	1,929	3,026	1,096
2044/45	1,852	3,026	1,173
2045/46	1,778	3,026	1,247
2046/47	1,707	3,026	1,319
2047/48	1,639	3,026	1,387
2048/49	1,573	3,026	1,452
2049/50	1,510	3,026	1,515
2050/51	1,450	3,026	1,576
2051/52	1,392	3,026	1,634
2052/53	1,336	3,026	1,689
2053/54	1,283	3,026	1,743
2054/55	1,231	3,026	1,794
2055/56	1,182	3,026	1,843
2056/57	1,135	3,026	1,891
2057/58	1,090	3,026	1,936
2058/59	1,046	3,026	1,980
2059/60	1,004	3,026	2,022
2060/61	964	3,026	2,062
2061/62	925	3,026	2,100
2062/63	888	3,026	2,137
2063/64	853	3,026	2,173
2064/65	819	3,026	2,207
2065/66	786	0	(786)
2066/67	755	0	(755)
2067/68	724	0	(724)
2068/69	695	0	(695)
2069/70	668	0	(668)
2070/71	641	0	(641)
2071/72	615	0	(615)
2072/73	591	0	(591)
2073/74	567	0	(567)
2074/75	544	0	(544)
2075/76	523	0	(523)
2076/77	502	0	(502)
2077/78	482	0	(482)
2078/79	462	0	(462)
2079/80	444	0	(444)
2080/81	426	0	(426)
2081/82	409	0	(409)
2082/83	393	0	(393)
2083/84	377	0	(377)
2084/85	362	0	(362)
2085/86	347	0	(347)
2086/87	334	0	(334)
2087/88	320	0	(320)
2088/89	307	0	(307)
2089/90	295	0	(295)