CYNGOR SIR *POWYS* COUNTY COUNCIL.

COUNCIL
7 March 2019

REPORT AUTHOR: **County Councillor Aled Davies**
Portfolio Holder for Finance

SUBJECT: **Minimum Revenue Provision Annual Statement 2019/20**

REPORT FOR: **Decision**

1. Summary

1.1 The Welsh Government (WG) Guidance on Minimum Revenue Provision (MRP) (issued in 2010, revised 2018) places a duty on local authorities to make a prudent provision for debt redemption, by putting aside resources to repay the debt in later years.

1.2 The guidance requires the authority to approve an annual MRP statement each year and recommends a number of options for calculating the amount of MRP.

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 are updated regularly to reflect changing borrowing needs and the resulting costs.

2.3 The CFR is the amount of capital expenditure that is not financed from revenue resources such as reserves, capital grants, 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.

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 Council 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.

3. Proposal

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

3.2 Regulation 22 details how MRP should be calculated. In 2010 WG issued statutory guidance which set various options for calculating prudent provision. The broad aim of the guidance is to ensure that the debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. Regulation 22, confirms that there is a duty for an authority each year to make an amount of MRP which it considers to be "prudent".

3.3 The regulation itself does not define "prudent amount". However, the MRP guidance makes recommendations to authorities on the interpretation of that term. The current MRP policy was introduced for the 2015/16 financial year and continues, based on the following:

3.4 **MRP on Supported Borrowing** (i.e. borrowing that receives central government support through the RSG). 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 2018/19 is £3.345m.

3.5 The advantage of the straight line basis is that the debt is extinguished over a shorter time period. This means that the current debt liability will be reduced to nil in 2057, rather than in 2065. The second advantage is greater certainty about the amount of debt.

3.6 **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 asset life.

3.7 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. In 2019/20 this MRP is estimated to be £2.059m.

3.8 **MRP for the HRA** - The HRA CFR, which is a combination of historic and settlement debt, is subject to the 2% reducing balance method calculation. MRP and is currently estimated at £1.629m. The HRA MRP for prudential debt will be calculated using the asset life method and is estimated at £415k for 2019/20.

3.9 **Assets Under Construction -** 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.

3.10 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.

4. Options Considered/Available

4.1 A detailed review was undertaken by external consultants on the method of calculating the MRP in 2015/16, and changes were then made.

5. Local Member(s)

Not applicable

6. Other Front Line Services

Not applicable

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

7.1 The Finance function lead on this technical area of work and abide by the approach included in the report.

7.2 Legal – The recommendations can be supported from a legal perspective

8 Corporate Communications

8.1 No proactive communication action required.

9 Statutory Officers

9.1 The Head of Financial Services (Deputy Section 151 Officer) comments as follows:

It is appropriate that we review our existing MRP policy annually and the report recommends a prudent approach that complies with regulations. In reviewing the policy to MRP calculation proper regard has been given to the statutory guidance.

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

10 Members’ Interests

10.1 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 Asset Life Annuity Method for the calculation of MRP in relation to Unsupported (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 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):	MRP Policy		
Within Policy:	**Y**	**Within Budget:**	**Y**

Relevant Local Member(s):	

Person(s) To Implement Decision:	**S151 Officer**
Date By When Decision To Be Implemented:	**1st April 2019**

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