

CYNGOR SIR POWYS COUNTY COUNCIL.

COUNCIL
9th March 2016

REPORT AUTHOR: County Councillor Wynne Jones
Portfolio Holder for Finance

SUBJECT: Revised Minimum Revenue Provision Annual Statement
2015/16

REPORT FOR: Decision

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 2015/16.

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 There would appear to be several considerations that could be explored:

- Is the MRP % appropriate?
- Is a reducing balance or straight line methodology appropriate for MRP?

- Do nothing (maintain current policy)
- 3.2 The method used to calculate the MRP for 2016/17 was approved by the Council on 25th February 2016. Given that Council agreed the approach for the 2016/17 budget policy framework it is appropriate to assess whether this should also be applied to the current financial year and this report now seeks to amend the method for 2015/16 as well given it is prudent to do so. The current 4% policy has an implied recovery period of 25 years. However, as the MRP is calculated each year on a reducing balance, the 4% is to a reduced CFR in each subsequent year thereby reducing the annual repayment. The move to a 2% straight line approach brings greater certainty to future periods because under the 4% reducing balance method the repayment period actually continues over an extended period. The graph in Appendix 2 illustrates this.
- 3.3 Therefore the proposal is to change the method of calculating the MRP in 2015/16 from the previous method of, 4% on a reducing balance, to 2% on a straight line basis for borrowing Council Fund debt previously financed from supported borrowing or credit approvals. This is in line with the approach for 2016/17 onwards agreed by Council on 25th February.
- 3.4 In addition to creating greater certainty about future calculations and will also yield an estimated £3.m saving in 2015/16 that can be applied to the overall revenue budget. 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.
- 3.5 This report is only changing the method of calculating the MRP for Supported Borrowing for the Council fund.

4. Options Considered/Available

- 4.1 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.

5. Preferred Choice and Reasons

- 5.1 The preferred choice is to change the Supported Borrowing MRP to a 2% straight line charge.

6. Local Member(s)

- 6.1 Not applicable

7. Other Front Line Services

- 7.1 Not applicable

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

- 8.1 The Finance function has been closely involved in the review and confirms the data included in the report.
9. Legal – The recommendations can be supported from a legal perspective

10. Corporate Communications

10.1 No proactive communication action required.

11. Statutory Officers

11.1 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.

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

12. Members' Interests

12.1 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

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

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

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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".

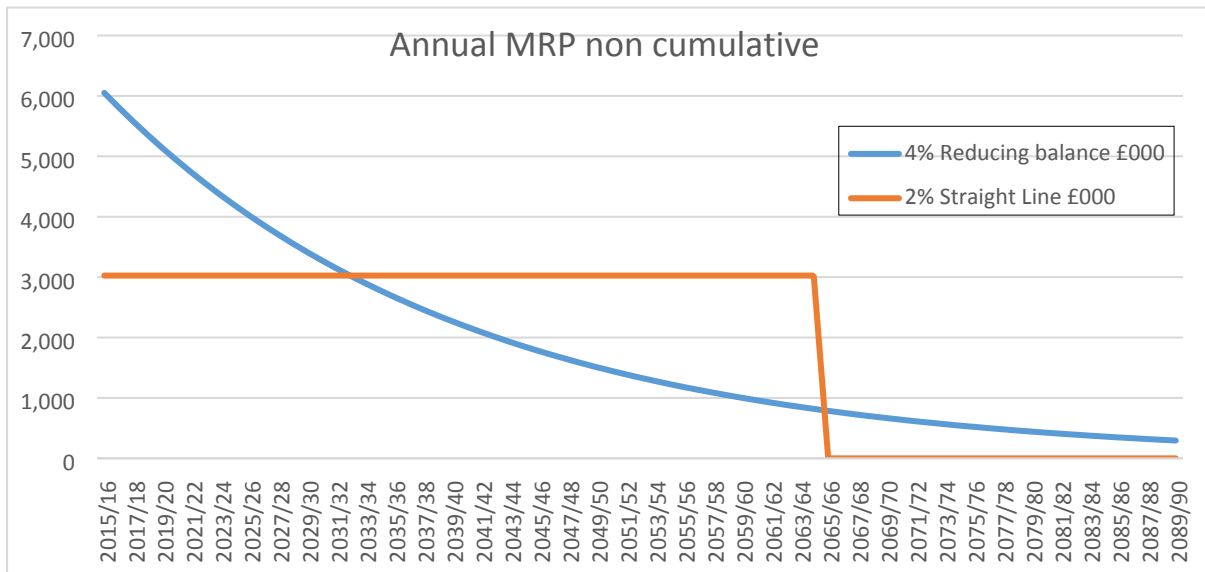
Significantly, under option 3 (and option 4), MRP does not have to be charged until the financial year following that in which the asset is completed and becomes operational.

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)

