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Am unrhyw ymholiad yn ymwneud â'r agenda hwn cysylltwch â Rebecca Barrett  
(Rhif Ffôn: 01443 864245 Ebst: barrerm@caerphilly.gov.uk)

**Dyddiad: Dydd Mercher, 30 Tachwedd 2016**

Annwyl Syr/Fadam,

Cyfarfod Arbennig o **Pwyllgor Craffu Polisi ac Adnoddau Arbennig** yn cael ei gynnal yn **Ystafell Sirhywi, Tŷ Penallta, Tredomen, Ystrad Mynach** ar **Dydd Mercher, 7fed Rhagfyr, 2016** am **5.30 pm** i ystyried materion a gynhwysir yn yr agenda canlynol.

Yr eiddoch yn gywir,

A handwritten signature in blue ink that reads 'Chris Burns'.

**Chris Burns**  
PRIF WEITHREDWR DROS DRO

## A G E N D A

Tudalennau

- 1 I dderbyn ymddiheuriadau am absenoldeb.
- 2 Datganiadau o Ddiddordeb.

Atgoffi'r Cyngorwyr a Swyddogion o'u cyfrifoldeb personol i ddatgan unrhyw fuddiannau personol a/neu niweidiol mewn perthynas ag unrhyw eitem o fusnes ar yr agenda hwn yn unol â Deddf Llywodraeth Leol 2000, Cyfansoddiad y Cyngor a'r Cod Ymddygiad ar gyfer Cyngorwyr a Swyddogion.

I dderbyn ac ystyried yr adroddiadau canlynol:-

- 3 Adolygu'r Polisi Darpariaeth Isafswm Refeniw.

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**Cylchrediad:**

Cynghorwyr L.J. Binding, Mrs P. Cook, C.J. Cuss, Miss E. Forehead, J.E. Fussell, C. Hawker, Ms J.G. Jones, G. Kirby (Is Gadeirydd), A. Lewis, C.P. Mann, S. Morgan (Cadeirydd), Mrs G.D. Oliver, D. Rees, R. Saralis, J. Simmonds a J. Taylor

A Swyddogion Priodol



## **SPECIAL POLICY AND RESOURCES SCRUTINY COMMITTEE – 7TH DECEMBER 2016**

**SUBJECT: REVIEW OF MINIMUM REVENUE PROVISION POLICY**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151  
OFFICER**

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### **1. PURPOSE OF REPORT**

- 1.1 To present Members with options for proposed changes to the Council's Minimum Revenue Provision (MRP) policy.
- 1.2 To provide Members with an opportunity to comment upon the options presented prior to subsequent consideration by Cabinet and Council in January 2017.

### **2. SUMMARY**

- 2.1 MRP is the method by which Local Authorities charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by debt.
- 2.2 From 2007/08 onwards, Local Authorities have been free to set their own policy on calculating MRP, with the sole legislative proviso being that the amount calculated must be one that the Council considers to be "prudent".
- 2.3 At a time of increasing pressure on budgets, many Local Authorities have reviewed their MRP policies to generate significant savings to support their Medium-Term Financial Plans. In Wales, such reviews have already been undertaken by Torfaen, Merthyr Tydfil, Conwy, Denbighshire, Flintshire, Rhondda Cynon Taff and Monmouthshire Councils.
- 2.4 The 2017/18 Draft Budget Proposals presented to Cabinet on the 30th November 2016 included a savings proposal of £3.5m to be achieved through a review of the Council's MRP policy.

### **3. LINKS TO STRATEGY**

- 3.1 Treasury Management Strategy 2016/17 as agreed by Council on 24th February 2016.
- 3.2 Prudent financial management contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2016:-
  - A prosperous Wales.
  - A resilient Wales.
  - A healthier Wales.
  - A more equal Wales.
  - A Wales of cohesive communities.

- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

## **4. THE REPORT**

### **4.1 Introduction**

- 4.1.1 The UK Government's programme of austerity has led to unprecedented cuts in the level of funding that Local Authorities receive annually to fund services. This has resulted in significant savings being required to balance budgets and unfortunately this situation is not likely to improve in the near future.
- 4.1.2 During this period of increasing pressure on revenue budgets a number of Local Authorities have reviewed their Minimum Revenue Provision (MRP) policies to generate significant savings to support Medium-Term Financial Plans. In Wales, such reviews have already been undertaken by Torfaen, Merthyr Tydfil, Conwy, Denbighshire, Flintshire, Rhondda Cynon Taff and Monmouthshire Councils.
- 4.1.3 MRP is the method by which Local Authorities charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by debt. This is in accordance with Part 5, Section 21 of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (and subsequent amendments in 2008). Before the 2007/08 financial year the method of calculating MRP was specified in legislation. However, from 2007/08 onwards Local Authorities have been free to set their own policy on calculating MRP, with the sole legislative proviso being that the amount calculated must be one that the Council considers to be "prudent".
- 4.1.4 MRP is intrinsically linked to the Capital Financing Requirement (CFR). The CFR represents the total of all the Council's past capital expenditure, less the total capital financing applied other than debt. The CFR therefore represents the Council's underlying need to borrow for capital purposes, and the amount that has yet to be permanently financed. MRP is the main method of permanently financing that expenditure.
- 4.1.5 The Council's Treasury Management Advisor, Arlingclose, was commissioned to review the Council's current MRP policy with the objective of identifying options to deliver savings to support the MTFP. This review has focussed on the Council Fund and does not, therefore, include the Housing Revenue Account (HRA).

### **4.2 Welsh Government MRP Guidance**

- 4.2.1 The Welsh Government (WG) has issued guidance on the calculation of MRP, including a number of methods which it considers to be prudent. The guidance is clear that Local Authorities are free to devise other methods they consider prudent. Broadly speaking, the guidance suggests that: -
- i) MRP on assets acquired through finance leases and Private Finance Initiative (PFI) should be equal to the cash payments that reduce the outstanding liability each year.
  - ii) MRP on all capital expenditure incurred before 1st April 2008, and on expenditure funded by supported borrowing thereafter, is equal to 4% of the opening CFR with some optional adjustments.
  - iii) MRP on expenditure incurred from April 2008 onwards that is funded by unsupported "prudential" borrowing should be calculated by reference to the asset's useful life, using either a straight line or an annuity method, starting in the year after the asset becomes operational.

4.2.2 Importantly, the guidance also suggests that the third method above is an alternative for all other expenditure.

### 4.3 Auditor Guidance

4.3.1 In January 2016, the Auditor General for Wales (AGW) issued guidance to Local Authorities considering revising their MRP policies. This guidance makes it clear that the responsibility for determining what is “prudent provision” lies with the Local Authority itself but points out that as auditors the AGW will consider whether or not the Local Authority has complied with its statutory duties to make MRP. Some of the areas that the AGW has pointed out that he would expect to see in any MRP policy include the following: -

- That MRP should be set at a level reasonably commensurate with the expected life of the asset or reasonably commensurate with the period implicit in the determination of the Revenue Support Grant (RSG).
- Where an Authority wishes to change its MRP for supported borrowing to an amount lower than 4% reducing balance, they would expect the Authority to be able to demonstrate that: -
  - the lower charge more accurately reflects the lives of assets employed by the Authority; or
  - the lower charge is reasonably commensurate with the period implicit in the determination of RSG (i.e. a 4% reducing balance basis).
- That Local Authorities need to make sure that when making decisions in respect of MRP that relate to actions taken in pursuit of their well-being objectives (or other sustainable development action) they act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations in accordance with The Well-being of Future Generations (Wales) Act 2015.
- Where any changes to MRP are taken retrospectively any “over provision” does not result in a negative or zero MRP charge.

### 4.4 Current MRP Policy

4.4.1 The Council’s MRP policy is set on an annual basis in accordance with the 2008 Regulations and approved by Full Council as part of the Treasury Management Strategy and the Revenue Budget prior to the commencement of each financial year.

4.4.2 The Council’s 2016/17 MRP policy was approved by Council on the 24th February 2016 and comprises of the following approach to determine the annual MRP charge: -

- Historic debt liability as at the 31st March 2007 and subsequent capital expenditure funded from supported borrowings to be charged to revenue at 4% in accordance with the CFR Method on a reducing balance basis.
- The Asset Life approach using the Equal Instalment Method for capital expenditure funded by unsupported (prudential) borrowing. This allows a charge to revenue over a 25 year period, which is deemed to be the estimated useful life. The charge is applied on a straight-line basis.

4.4.3 Based on the current policy the MRP charge to the revenue account for the 2016/17 financial year is £7,861,064.

## 4.5 Alternative Approaches

### Supported Borrowings

- 4.5.1 The Council's current policy for capital expenditure funded from supported borrowings is for MRP to be charged to revenue at 4% in accordance with the CFR Method on a reducing balance basis. Based on an opening supported borrowing CFR of £175.746m as at the 1st April 2016, the 2016/17 MRP charge for supported borrowings is £7.030m.
- 4.5.2 An alternative approach that the Council could adopt is to link the supported CFR MRP charge to average asset lives. The MRP Guidance states that "approaches differing from those exemplified are not ruled out" and applying an asset life method to this element of the CFR is an approach being undertaken by a number of Local Authorities. In simple terms, this approach links the annual MRP charge to a more realistic assessment of the lives of assets funded through debt. For example, it would not be unreasonable to assume that a school would have a useful life of up to 70 years.
- 4.5.3 As at the 31st March 2016, the net book value (NBV) of the Council's total fixed assets (excluding HRA housing stock) was £942m. A number of these fixed assets will have been funded from supported borrowing. For supported borrowing the Authority does not assign actual borrowing to individual assets. The supported borrowing CFR as at the 1st April is £175.746m, which represents 18.7% of the net book value of £942m. The assets have a range of estimated asset lives but it is difficult to establish which are unfinanced and included in the supported element of the CFR. On a 4% reducing balance method the financing of the supported borrowing CFR will take in excess of 150 years to fully clear and it may therefore be more prudent to change this to a shorter timescale. Based on a review of the assets in the asset register it is considered that an average outstanding life of 50 years would not be unreasonable for the purpose of calculating MRP.
- 4.5.4 There are 2 alternative options available for charging the MRP on the supported borrowing element of the CFR over a period of 50 years: -

**Straight Line Method** – Under this approach the MRP charge on the supported borrowing CFR would be applied equally over the 50 year period meaning that the year-on-year charge remains constant.

**Annuity Method** – This is more commonly used as a method of establishing loan repayments, where it is required that the total amount of principal and interest repaid each year is a common amount. As such, it produces a profile of principal repayments that starts low and increases each year. For the purpose of calculating MRP a notional interest rate can be assumed and the MRP charge will be linked to the amount of principal on an annual basis. This results in a lower MRP charge in earlier years and a higher charge in later years. However, it is arguably the case that the annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years time is less of a burden than paying £100 now. For the purpose of this MRP review an annuity rate of 2% over a 50 year period is assumed for supported borrowing as this corresponds with the Bank of England Monetary Policy Committee's inflation target rate of 2%.

### Unsupported Borrowing

- 4.5.5 The Council currently adopts the Asset Life approach using the Equal Instalment Method for capital expenditure funded by unsupported (prudential) borrowing. This allows a charge to revenue over a 25 year period, which is deemed to be the estimated useful life. The charge is applied on a straight-line basis. Based on an opening unsupported borrowing CFR of £16.073m as at the 1st April 2016, the 2016/17 MRP charge for unsupported borrowings is £0.831m.



- 4.5.6 An alternative approach that the Council could adopt is to link the unsupported CFR MRP charge to estimated asset lives for individual assets. Rather than adopting the current policy of assuming that all assets have a 25 year life, this revised approach involves reviewing the assets funded through unsupported borrowing and applying specific estimated lives for each individual asset. In essence, many assets will have estimated lives in excess of 25 years and this will result in a lower annual MRP charge for these assets, albeit that the charge will be applied over a longer period. However, it can be argued that it is reasonable to apply the MRP charge over the period that benefit is being gained from the use of the asset. Where the estimated life of an asset cannot be determined a default position of 25 years can be assumed.
- 4.5.7 As with the supported borrowing CFR there are 2 options available for charging the MRP on the unsupported borrowing element of the CFR i.e. the straight line method and the annuity method. However, for the annuity option the average Public Works Loan Board (PWLB) interest rate for new annuity loans in the year that an asset becomes operational will be used for calculating MRP.
- 4.5.8 Members may wish to note that Blaenau Gwent CBC has recently changed its MRP policy on unsupported borrowing to the annuity method. A number of other Welsh Local Authorities are also considering the annuity method as part of ongoing reviews of their MRP policies.

#### 4.6 Options Appraisal

- 4.6.1 For the purpose of appraising the options available, the opening balance on the CFR as at the 1st April 2016 for both supported and unsupported borrowing will be the start point. It is assumed that new borrowing of £17.550m will be undertaken as follows: -
- Supported borrowing 2016/17 for approved Capital Programme £4.990m
  - Supported borrowing 2017/18 for proposed Capital Programme £4.990m
  - Supported borrowing 2017/18 for 21<sup>st</sup> Century Schools £4.170m
  - Supported borrowing 2017/18 for 21<sup>st</sup> Century Schools £3.400m
- 4.6.2 No further borrowing is assumed as the revenue implications of additional borrowing in future years will be considered as part of the annual process of agreeing the revenue budget.
- 4.6.3 Appendix 1 provides details of the annual MRP charge for the period 2016/17 to 2088/89 for the current policy and for the revised approaches adopting the straight-line method and the annuity method. The current policy assumes the status quo but the figures for the annuity and straight-line methods are based on the following: -
- Historic debt liability as at the 31st March 2007 and subsequent capital expenditure funded from supported borrowings to be charged to revenue over 50 years.
  - The MRP charge for individual assets funded through unsupported borrowing to be based on the estimated life of each asset or 25 years where this cannot be determined.
  - An annuity rate of 2% is assumed for supported borrowing.
  - The annuity rate for unsupported borrowing is based on the average PWLB interest rate for new annuity loans in the year that an asset becomes operational.
- 4.6.4 Members should note that the total MRP charge required to fully extinguish the CFR is the same whichever approach is followed. The variable is the actual annual amount payable depending on which methodology is adopted.
- 4.6.5 The following summarises the main points arising from adopting the straight-line method: -
- For illustration purposes, under the current policy a total MRP charge of £100.657m is payable for the next 15 years (an average of £6.710m per annum).
  - By adopting the straight-line method a total MRP charge of £64.457m is payable for the next 15 years (an average of £4.297m per annum).

- In year one (2016/17) a saving of £3.858m is achieved and this one-off in-year funding would be available to support the Capital Programme.
- In years 19 to 50 the straight-line method is more expensive than the current approach.
- In years 51 to 72 the straight-line method is less expensive than the current approach.
- The CFR for both supported and unsupported elements is fully extinguished by year 72.
- Under the current MRP policy there is still a CFR balance of £10.099m in year 72 and a MRP charge of £0.421m.

4.6.6 The maximum annual MRP payable under the straight-line method is £4.335m. The charge for 2016/17 under the current policy is £7.861m so a budget reduction of £3.526m is achievable without compromising the budget required for future years. For 2017/18 the MRP charge under the straight-line method is less than £4.335m so this would provide additional surplus one-off funding totalling £0.232m that could be used to support the Capital Programme.

4.6.7 The following summarises the main points arising from adopting the annuity method: -

- For illustration purposes, under the current policy a total MRP charge of £100.657m is payable for the next 15 years (an average of £6.710m per annum).
- By adopting the annuity method a total MRP charge of £43.628m is payable for the next 15 years (an average of £2.909m per annum).
- In year one (2016/17) a saving of £5.540m is achieved and this one-off in-year funding would be available to support the Capital Programme.
- In years 22 to 50 the annuity method is more expensive than the current approach.
- In years 51 to 72 the annuity method is less expensive than the current approach.
- The CFR for both supported and unsupported elements is fully extinguished by year 72.
- Under the current MRP policy there is still a CFR balance of £10.099m in year 72 and a MRP charge of £0.421m.

4.6.8 The MRP charge under the annuity method is much lower in the earlier years than later years. However, it would not be prudent to permanently adjust the budget based on the maximum savings achievable as this would mean that significant growth would be required in later years. An alternative approach would be to reduce the MRP budget by £3.5m from 2017/18 and utilise the excess savings above this sum to support the Capital Programme. This would provide significant one-off resources and help to reduce the need to borrow in future years as demonstrated in the table below for the initial 10 year period: -

<b>Year</b>	<b>Adjusted Annual Budget £m</b>	<b>Annuity Annual Charge £m</b>	<b>One-off Surplus Available £m</b>
2017/18	4.361	2.432	1.929
2018/19	4.361	2.603	1.758
2019/20	4.361	2.661	1.700
2020/21	4.361	2.721	1.640
2021/22	4.361	2.783	1.578
2022/23	4.361	2.847	1.514
2023/24	4.361	2.912	1.449
2024/25	4.361	2.978	1.383
2025/26	4.361	3.047	1.314
2026/27	4.361	3.117	1.244
			<b>15.509</b>

4.6.9 Members should note that from the 2046/47 financial year it would be necessary to build growth into the base budget as the MRP charge would exceed the adjusted budget of £4.361m. It is also important to remind Members that all of the projected costs in this report are based on the opening CFR balance as at the 1st April 2016 for both supported and



unsupported borrowing, plus assumed new borrowing of £17.550m. In reality, the level of new borrowing will be much higher in the medium to long-term and some of the one-off annual surpluses indicated in the table above may need to be built back into the base budget to support increased MRP charges arising from additional new borrowing.

- 4.6.10 The total MRP charge required to fully extinguish the CFR is the same under both the straight-line and annuity methods. However, the table below summarises the key points arising from adopting the straight-line or annuity method for calculating MRP based on the opening total CFR as at the 1st April 2016 of £191.819m and new borrowing of £17.550m. A revenue budget saving of circa £3.5m is assumed from 2017/18 to support the MTFP.

<b>Straight-Line</b>	<b>Annuity</b>
MRP charge applied equally over the life of assets.	MRP charge is lower in early years and higher in later years.
CFR fully extinguished by year 72.	CFR fully extinguished by year 72.
£3.858m one-off saving in 2016/17 to support the Capital Programme. Further one-off saving of £0.232m in 2017/18.	One-off savings totalling £15.509m in first 10 years to support the Capital Programme. These one-off savings would continue on an annual basis until 2045/46, albeit that the amount would reduce annually.
No budgetary growth required during 72 year period to fully extinguish the CFR.	Budgetary growth required annually from 2046/47 to 2065/66 to ensure that the CFR is fully extinguished during the 72 year period.

## **5. WELL-BEING OF FUTURE GENERATIONS**

- 5.1 The Wellbeing of Future Generations (Wales) Act 2015 requires that decisions made by Council today must not have a detrimental effect on future generations.
- 5.2 The options set out in this report essentially seek to charge MRP to the revenue account over a period which is commensurate with the estimated lives of assets. This approach ensures that the charge is applied over the period that benefit is being gained from the use of the assets.
- 5.3 Under the existing MRP policy the bulk of the MRP charge is applied in the early years, which means that current council tax payers are paying a premium for assets that will also benefit future generations. Furthermore, the reducing balance methodology currently adopted for supported borrowing results in the MRP charge being applied to the revenue account long after assets have reached the end of their useful lives.
- 5.4 The option of changing to a straight-line basis will ensure that the current CFR for both supported and unsupported elements is fully extinguished by year 72. This approach ensures that a consistent annual charge is payable throughout the life of assets.
- 5.5 The option of changing to an annuity basis will also ensure that the current CFR for both supported and unsupported elements is fully extinguished by year 72. A change in the MRP policy to an annuity basis would result in a lower MRP charge in the earlier years with an increase in the amount charged in later years, and therefore paid by future generations. However, the method does ensure that all generations pay a similar amount when adjusted for the time value of money.

## **6. EQUALITIES IMPLICATIONS**

- 6.1 An Equalities Impact Assessment will be undertaken prior to final proposals being presented to Cabinet and Council in February 2017.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 The projected MRP costs in this report are based on opening CFR balances as at the 1st April 2016 for both supported and unsupported borrowing totalling £191.819m, and assumed new borrowing of £17.550m. In reality, the level of new borrowing will be much higher in the medium to long-term and this will need to be considered as part of the annual budget setting process. The MRP policy will therefore continue to be kept under review annually.
- 7.2 The maximum annual MRP payable under the straight-line method is £4.335m. The charge for 2016/17 under the current policy is £7.861m so a budget reduction of £3.526m is achievable without compromising the budget required for future years. There will be no requirement to build growth into future years to deal with the MRP charge based on the existing CFR balances plus assumed new borrowing of £17.550m. However, additional borrowing in future years will attract further MRP charges and this will need to be considered as part of the annual budget setting process moving forward. A one-off saving of £3.858m will also be achieved in the 2016/17 financial year and this funding would be available to support the Capital Programme. Furthermore, an additional one-off saving of £0.232m is available in 2017/18.
- 7.3 The option of revising the MRP policy to an annuity basis would result in the 2017/18 charge being £5.347m lower than the charge under the existing policy. However, it would not be prudent to permanently adjust the budget based on the maximum savings achievable as this would mean that significant growth would be required in later years. An alternative approach would be to reduce the MRP budget by £3.5m to £4.361m from 2017/18 and utilise the excess savings above this sum to support the Capital Programme in future years. This would provide significant one-off resources and help to reduce the need to borrow in future years. Members should note that from the 2046/47 financial year it would be necessary to build growth into the base budget to deal with the higher MRP charges required in later years to fully extinguish the current CFR balances under the annuity method.

## **8. PERSONNEL IMPLICATIONS**

- 8.1 There are no direct personnel implications arising from this report.

## **9. CONSULTATIONS**

- 9.1 The MRP policy is part of the Treasury Management Strategy, which is approved annually by Full Council. Any change to the MRP policy is therefore of interest to all Members. With this in mind a Members' Seminar has been scheduled for the 12th January 2017. This will provide an opportunity for all Members to be fully briefed on the proposed changes and Arlingclose will be in attendance to assist with dealing with questions that Members may raise. A report on the proposed changes will subsequently be presented to Cabinet on the 18th January 2017 and then Council on the 24th January 2017.
- 9.2 Discussions are ongoing with the Authority's External Auditor, Grant Thornton, regarding the proposed changes to the MRP policy.

## **10. RECOMMENDATIONS**

10.1 The Scrutiny Committee is asked: -

- i) To consider and comment upon the content of this report.
- ii) To note that a Members' Seminar has been scheduled for the 12th January 2017 to enable all Members to be fully briefed on the proposed changes and to provide a further opportunity for views to be expressed and for questions to be raised.
- iii) To note that a further report on proposed changes to the MRP policy will subsequently be presented to Cabinet on the 18th January 2017 and then Council on the 24th January 2017.

## **11. REASONS FOR THE RECOMMENDATIONS**

11.1 To ensure that Members are provided with an opportunity to contribute to the process of agreeing changes to the Council's MRP policy.

## **12. STATUTORY POWER**

12.1 Local Government Acts 1972 and 2003.

12.2 Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (and subsequent amendments in 2008).

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Consultees: Nicole Scammell – Acting Director of Corporate Services & S151 Officer  
Andrew Southcombe – Finance Manager, Corporate Finance  
Nadeem Akhtar – Group Accountant (Financial Advice and Support)  
Gail Williams - Interim Head of Legal Services & Monitoring Officer

Background Papers:

- Council Report 24th February 2016 – Treasury Management Annual Strategy, Capital Finance Prudential Indicators and Minimum Revenue Provision Policy for 2016/17.
- Cabinet Report 30th November 2016 – Draft Budget Proposals 2017/18.

Appendices:

Appendix 1 MRP Charges for Various Options

**Review of Minimum Revenue Provision Policy (MRP)****MRP Charges for Various Options**

Year	Date	Current Policy (£)	Straight Line Basis (£)	Difference (£)	Annuity Basis (£)	Difference (£)
1	2016/17	7,861,064	4,003,151	(3,857,912)	2,320,640	(5,540,423)
2	2017/18	7,779,471	4,102,951	(3,676,519)	2,432,040	(5,347,431)
3	2018/19	8,003,927	4,334,715	(3,669,211)	2,602,600	(5,401,327)
4	2019/20	7,722,459	4,334,715	(3,387,744)	2,661,381	(5,061,079)
5	2020/21	7,452,251	4,334,715	(3,117,535)	2,721,643	(4,730,607)
6	2021/22	7,192,850	4,334,715	(2,858,135)	2,783,430	(4,409,420)
7	2022/23	6,943,826	4,334,715	(2,609,110)	2,846,787	(4,097,039)
8	2023/24	6,704,762	4,334,715	(2,370,047)	2,911,761	(3,793,002)
9	2024/25	6,475,261	4,334,715	(2,140,546)	2,978,399	(3,496,862)
10	2025/26	6,254,941	4,334,715	(1,920,225)	3,046,752	(3,208,188)
11	2026/27	6,043,433	4,334,715	(1,708,717)	3,116,872	(2,926,561)
12	2027/28	5,840,385	4,334,715	(1,505,669)	3,188,812	(2,651,573)
13	2028/29	5,645,459	4,334,715	(1,310,744)	3,262,628	(2,382,831)
14	2029/30	5,458,330	4,334,715	(1,123,615)	3,338,377	(2,119,953)
15	2030/31	5,278,687	4,334,715	(943,971)	3,416,120	(1,862,567)
16	2031/32	5,106,229	4,301,382	(804,847)	3,451,072	(1,655,156)
17	2032/33	4,874,669	4,243,491	(631,178)	3,447,140	(1,427,529)
18	2033/34	4,389,012	4,195,371	(193,641)	3,452,663	(936,349)
19	2034/35	4,156,912	4,169,131	12,219	3,489,901	(667,012)
20	2035/36	3,891,436	4,130,011	238,575	3,508,416	(383,020)
21	2036/37	3,750,818	4,130,011	379,192	3,584,353	(166,466)
22	2037/38	3,615,826	4,130,011	514,185	3,662,063	46,237
23	2038/39	3,486,233	4,130,011	643,778	3,741,593	255,360
24	2039/40	3,349,823	4,130,011	780,188	3,822,992	473,169
25	2040/41	3,022,390	4,130,011	1,107,620	3,906,310	883,920
26	2041/42	2,887,735	4,130,011	1,242,276	3,991,598	1,103,863
27	2042/43	2,777,665	4,130,011	1,352,345	4,078,908	1,301,243
28	2043/44	2,535,999	4,130,011	1,594,012	4,168,296	1,632,297
29	2044/45	2,434,559	4,130,011	1,695,452	4,259,817	1,825,258
30	2045/46	2,337,177	4,130,011	1,792,834	4,353,530	2,016,354
31	2046/47	2,243,689	4,130,011	1,886,321	4,449,495	2,205,806
32	2047/48	2,153,942	4,125,758	1,971,816	4,539,747	2,385,806
33	2048/49	2,067,784	4,084,320	2,016,536	4,558,214	2,490,430
34	2049/50	1,985,073	4,055,259	2,070,186	4,599,820	2,614,747
35	2050/51	1,905,670	4,010,620	2,104,950	4,610,394	2,704,724
36	2051/52	1,829,443	4,010,620	2,181,177	4,707,154	2,877,711
37	2052/53	1,756,265	4,010,620	2,254,354	4,806,039	3,049,774
38	2053/54	1,686,015	4,010,620	2,324,605	4,907,098	3,221,084
39	2054/55	1,618,574	4,003,357	2,384,783	4,995,680	3,377,106
40	2055/56	1,553,831	4,003,357	2,449,525	5,100,625	3,546,794
41	2056/57	1,491,678	4,003,357	2,511,679	5,207,878	3,716,201
42	2057/58	1,432,011	4,003,357	2,571,346	5,317,495	3,885,484
43	2058/59	1,374,730	4,003,357	2,628,626	5,429,530	4,054,800
44	2059/60	1,319,741	4,003,357	2,683,615	5,544,044	4,224,302
45	2060/61	1,266,952	4,003,357	2,736,405	5,661,094	4,394,142
46	2061/62	1,216,273	4,003,357	2,787,083	5,780,742	4,564,468

Year	Date	Current Policy	Straight Line Basis	Difference	Annuity Basis	Difference
		(£)	(£)	(£)	(£)	(£)
47	2062/63	1,167,623	4,003,357	2,835,734	5,903,050	4,735,428
48	2063/64	1,120,918	4,003,357	2,882,439	6,028,084	4,907,167
49	2064/65	1,076,081	4,003,357	2,927,276	6,155,910	5,079,829
50	2065/66	1,033,038	3,901,479	2,868,441	6,062,106	5,029,069
51	2066/67	991,716	386,567	(605,149)	594,491	(397,225)
52	2067/68	952,048	286,767	(665,280)	451,696	(500,352)
53	2068/69	913,966	103,575	(810,391)	173,543	(740,423)
54	2069/70	877,407	103,575	(773,832)	181,513	(695,894)
55	2070/71	842,311	103,575	(738,736)	189,849	(652,462)
56	2071/72	808,618	103,575	(705,044)	198,568	(610,051)
57	2072/73	776,274	103,575	(672,699)	207,687	(568,586)
58	2073/74	745,223	103,575	(641,648)	217,226	(527,997)
59	2074/75	715,414	103,575	(611,839)	227,203	(488,211)
60	2075/76	686,797	103,575	(583,223)	237,638	(449,160)
61	2076/77	659,325	103,575	(555,751)	248,552	(410,773)
62	2077/78	632,952	103,575	(529,378)	259,968	(372,984)
63	2078/79	607,634	48,571	(559,063)	103,261	(504,373)
64	2079/80	583,329	48,571	(534,757)	107,908	(475,421)
65	2080/81	559,996	48,571	(511,424)	112,764	(447,232)
66	2081/82	537,596	48,571	(489,024)	117,838	(419,758)
67	2082/83	516,092	48,571	(467,521)	123,141	(392,951)
68	2083/84	495,448	48,571	(446,877)	128,682	(366,766)
69	2084/85	475,630	48,571	(427,059)	134,473	(341,158)
70	2085/86	456,605	48,571	(408,034)	140,524	(316,081)
71	2086/87	438,341	48,571	(389,770)	146,848	(291,493)
72	2087/88	420,807	48,571	(372,236)	153,456	(267,351)
73	2088/89	403,975	0	(403,975)	0	(403,975)

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## **SPECIAL POLICY AND RESOURCES SCRUTINY COMMITTEE – 7TH DECEMBER 2016**

**SUBJECT: DRAFT BUDGET PROPOSALS FOR 2017/18**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151  
OFFICER**

- 
- 1.1 The attached report setting out details of draft revenue budget proposals for the 2017/18 financial year was presented to Cabinet at its meeting on the 30<sup>th</sup> November 2016.
  - 1.2 As part of the consultation process on the draft budget proposals the Scrutiny Committee is asked to consider and comment upon the content of the report.

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Appendices:

Appendix 1 Cabinet Report 30/11/16 – Draft Budget Proposals for 2017/18

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## CABINET – 30TH NOVEMBER 2016

**SUBJECT: DRAFT BUDGET PROPOSALS FOR 2017/18**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & SECTION 151 OFFICER**

### 1. PURPOSE OF REPORT

- 1.1 To present Cabinet with details of draft budget proposals for the 2017/18 financial year to allow for a period of consultation prior to a final decision in February 2017.

### 2. SUMMARY

- 2.1 The report provides details of draft budget proposals based on the Welsh Government (WG) Provisional 2017/18 Local Government Financial Settlement.
- 2.2 The report also provides details of draft savings proposals for 2017/18 totalling £8.653m.

### 3. LINKS TO STRATEGY

- 3.1 The budget setting process encompasses all the resources used by the Council to deliver services and meet priorities.
- 3.2 Effective financial planning and the setting of a balanced budget support the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -
- A prosperous Wales.
  - A resilient Wales.
  - A healthier Wales.
  - A more equal Wales.
  - A Wales of cohesive communities.
  - A Wales of vibrant culture and thriving Welsh Language.
  - A globally responsible Wales.

### 4. THE REPORT

#### 4.1 **Headline Issues in Provisional Settlement**

- 4.1.1 Published on the 19th October 2016, the key points of the WG Provisional 2017/18 Local Government Financial Settlement are the following: -
- An overall net increase of 0.1% in the Aggregate External Finance (Revenue Support Grant (RSG) and Redistributed Non-Domestic Rates) on an all-Wales basis. This varies by Authority due to the funding formula and ranges from minus 0.5% to plus 0.9%.

- For Caerphilly CBC there is a reduction of 0.3% in the Aggregate External Finance i.e. a cash decrease of £0.608m.
- There is £262k funding in the provisional settlement for Caerphilly CBC for new responsibilities in Social Services. This funding has been allocated due to WG policy changes that will result in a loss of income from service user financial contributions to the cost of their care.
- There have been four transfers into the settlement totalling £0.185m and one transfer out of £0.062m. Details are provided in paragraph 4.1.2.
- Changes to other passported grants in the provisional settlement result in a net reduction of £0.283m as detailed in paragraph 4.1.3.
- No indicative settlement figures have been provided by WG at this stage for future years beyond 2017/18.
- The capital allocations available to Caerphilly CBC in the RSG and from the General Capital Grant have increased by £19k from the previous year.

4.1.2 Table 1 provides details of transfers in and out of the WG financial settlement: -

Table 1 – Transfers In/Out 2017/18

	£m
<b>Transfers In: -</b>	
Delivering Transformation Grant	0.171
Deprivation of Liberty Safeguards	0.010
Blue Badge Scheme Additional Funding	0.001
Food Hygiene Rating Scheme	0.003
<b>Transfers Out: -</b>	
Education Workforce Council Teacher Registration Fees	(0.062)
<b>TOTAL</b>	<b>0.123</b>

4.1.3 Table 2 provides details of changes to other passported grants included in the WG financial settlement: -

Table 2 – Other Passported Grants 2017/18

	£m
Integrated Family Support Service	(0.173)
Private Finance Initiative (PFI)	(0.201)
Council Tax Reduction Scheme	0.091
<b>TOTAL</b>	<b>(0.283)</b>

4.1.4 As in previous years, the adjustments in Tables 1 and 2 (both the increases and decreases in funding) will be passed directly to those services that they relate to.

## 4.2 2017/18 Draft Budget Proposals

4.2.1 The proposals contained within this report will deliver a balanced budget for 2017/18 on the basis that Council Tax is increased by 1%. Table 3 provides a summary: -

Table 3 – Summary

Paragraph	Description	£m	£m
4.2.2	Whole Authority Cost Pressures	2.745	
4.2.3	Inescapable Service Pressures	6.186	
4.1.1	Reduction in WG Funding	0.608	
4.3.1	Draft Savings Proposals 2017/18		8.653
4.4.1	Council Tax Uplift (1%)		0.886
	<b>TOTAL</b>	<b>9.539</b>	<b>9.539</b>

- 4.2.2 The whole Authority cost pressures totalling £2.745m are set out in Table 4 below (cost pressures for schools are excluded as these will be funded through a proposed increase of 1.25% in the funding provided to schools): -

Table 4 – Whole Authority Cost Pressures

	<b>£m</b>
Pay – Weighted average increase of 1.2%	1.367
Living Wage (assumed increase of 20p per hour)	0.148
Non-pay inflation at 1% (net of 1% fees and charges increase)	1.128
New Responsibilities	0.262
Transfers in/out and other passported grants	(0.160)
<b>TOTAL</b>	<b>2.745</b>

- 4.2.3 It is incumbent upon Council to set a realistic budget each year. Table 5 provides details of the 2017/18 inescapable service commitments/pressures that have been identified and require consideration in respect of funding: -

Table 5 – Inescapable Service Pressures and Other Service Commitments

	<b>£m</b>
Council Tax Reduction Scheme additional liability	0.148
Apprenticeship Levy	0.454
Additional holiday pay (staff working variable hours)	0.425
Welsh Language Standards	0.250
Tir-yr-Berth Depot – Running costs	0.075
Increase in funding for schools (1.25%)	1.334
Social Services cost pressures	3.500
<b>TOTAL</b>	<b>6.186</b>

- 4.2.4 **Council Tax Reduction Scheme (CTRS)** – The additional liability of £148k arises from a 1% increase in the CTRS budget in line with the proposed increase in Council Tax.
- 4.2.5 **Apprenticeship Levy** – This levy will be introduced by the UK Government from April 2017 and will be applicable in Wales. All employers with a payroll cost of greater than £3m per annum will be subject to a 0.5% levy on total payroll costs. The purpose of the levy is to fund traineeships but it is currently not clear how this will operate in Wales and how the funding will be allocated to WG. The estimated cost of the levy for Caerphilly CBC is £454k per annum.
- 4.2.6 **Additional holiday Pay for staff working variable hours** – Negotiations are ongoing to ensure that the Council is compliant with recent case law concerning annual leave payments for employees that receive payments in addition to their basic salary. An initial estimate of £425k has been calculated as the cost of these potential additional payments. It is proposed that this funding should be held corporately in the first instance until the actual impact on service budgets has been established.
- 4.2.7 **Welsh Language Standards** – Significant financial pressures are being experienced in this area and to ensure compliance with the Standards it will be necessary to provide additional resources, particularly in relation to translation costs.
- 4.2.8 **Tir-yr-Berth Depot** – Following the transfer of various teams into and out of the Depot there is a resultant shortfall of £75k in the running costs budget largely due to a loss of income from the Housing Revenue Account (HRA).
- 4.2.9 **Increase in funding for schools** – An increase of 1.25% is proposed for schools totalling £1.334m. This increase will fully fund pay and non-pay inflationary increases and will also fund the majority of the cost of the impact of the Apprenticeship Levy on schools.

4.2.10 **Social Services cost pressures** - Cabinet will recall that the 2016/17 budget approved by Council on the 24th February 2016 included a contingency of £2.5m for Social Services cost pressures. This contingency was initially held corporately but the full £2.5m has now been permanently transferred into the Social Services base budget. This has been necessary to fund increases in fees for external care providers due in the main to the introduction of the National Living Wage, and additional costs arising from increasing demand for services in both Adult and Children's Services. It is proposed that a further sum of £3.5m should be allocated in the 2017/18 budget to meet ongoing financial pressures for Social Services.

### 4.3 2017/18 Draft Savings Proposals

4.3.1 Although the Provisional 2017/18 Financial Settlement is much better than originally anticipated, the emerging cost pressures identified in this report result in a net savings requirement of £8.653m. Table 6 provides details of the draft savings proposals that, alongside the proposed increase of 1% in Council Tax, will enable a balanced budget to be achieved.

Table 6 – Draft Savings Proposals 2017/18

Description	2017/18 Saving £m
<b>Savings in advance brought forward from 2016/17</b>	<b>1.815</b>
<b>Full-Year impact of approved 2016/17 savings</b>	<b>0.146</b>
<b>2017/18 savings proposals: -</b>	
'Nil impact' savings	3.037
Bowling Green rationalisation	0.113
Treasury Management – Review of MRP policy	3.500
Pension contributions for former Authorities	0.042
<b>TOTAL</b>	<b>8.653</b>

4.3.2 **Savings in advance brought forward from 2016/17** - At its meeting on the 24th February 2016 Council approved a package of savings totalling £11.117m for the 2016/17 financial year. This exceeded the total savings required to balance the 2016/17 budget resulting in savings in advance of £1.815m. Council agreed that for 2016/17 only this excess sum should be set aside in an earmarked reserve to meet cost pressures in dry recyclable waste and to provide one-off match-funding to support carbon management initiatives. The £1.815m savings will now be required to help balance the budget for 2017/18.

4.3.3 **Full-Year impact of approved 2016/17 savings** - Some of the approved savings for 2016/17 only had a part-year impact and the full-year effect of these savings will now provide an additional £146k to support the 2017/18 budget.

4.3.4 **2017/18 'Nil Impact' savings** - As part of the extensive work previously undertaken to prepare for anticipated savings in future years, savings totalling £3.037m were identified for 2017/18 that do not have a direct impact on services users or the public. These proposals consist in the main of vacancy management, budget realignment and minor changes to service provision.

4.3.5 **Bowling Green rationalisation** - At its meeting on the 2nd March 2016, Cabinet agreed proposals on the rationalisation of Bowling Greens which will deliver savings of £113k to support the 2017/18 budget. The approved changes include the following: -



- The closure of Abertridwr Bowling Green and subsequent release of one post.
- Removal of the Park Ranger service.
- The operation of 20 bowling greens at a reduced maintenance specification with the subsequent release of three members of staff.
- Bowling Clubs to undertake non-specialist green maintenance tasks.
- Payment of a grant to Bowling Clubs.
- Clubs to retain income from fees and charges.

4.3.6 **Treasury Management - Review of MRP policy** - A saving of £3.5m is proposed through undertaking a review of the Authority's Minimum Revenue Provision (MRP) policy. MRP is a very technical concept but its core purpose is to charge revenue accounts over a period of time with the cost of assets financed through debt. There are a number of different ways that this charge can be calculated but in simple terms the current approach adopted within Caerphilly CBC essentially charges the revenue account annually over a period of 25 years. The revised approach being undertaken by a number of Local Authorities links the annual MRP charge to a more realistic assessment of the lives of assets funded through debt. For example, it would not be unreasonable to assume that a school would have a useful life of up to 70 years.

Staff in Corporate Finance have been working with our Treasury Advisors, Arlingclose, and a report on proposed changes to the MRP policy is being prepared for the Special Policy & Resources Scrutiny Committee on the 7th December 2016. The main thrust of this report will be to change the policy to reflect average asset lives of 50 years. This effectively spreads the MRP charge over 50 years instead of 25, thus reducing the annual charge to the revenue account and realising significant savings to support the MTFP.

MRP is an element of the Treasury Management Strategy which is approved annually by full Council. The proposed change to the MRP policy is therefore of interest to all Members. With this in mind a Members' Seminar has been scheduled for the 12th January 2017. This will provide an opportunity for all Members to be fully briefed on the proposed changes and Arlingclose will be in attendance to assist with dealing with questions that Members may raise. A report on the proposed changes will subsequently be presented to Cabinet on the 18<sup>th</sup> January 2017 and then Council on the 24th January 2017.

4.3.7 **Pension contribution for former Authorities** – Commitments against this budget are reducing over time and a budget reduction of £42k is achievable for 2017/18.

4.3.8 Cabinet is asked to endorse the proposed package of savings totalling £8.653m and to agree that the draft budget proposals contained in this report should now be subject to a period of consultation prior to final 2017/18 budget proposals being presented to Cabinet and Council in February 2017.

#### 4.4 **Council Tax Implications 2017/18**

4.4.1 The draft budget proposals within this report include a proposed increase of 1% in Council Tax for the 2017/18 financial year. This will increase the Caerphilly CBC Band D precept from £1,001.94 to £1,011.96 i.e. an annual increase of £10.02 or weekly increase of £0.19.

### 5. **WELL-BEING OF FUTURE GENERATIONS**

5.1 Effective financial planning is a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

## **6. EQUALITIES IMPLICATIONS**

- 6.1 An EIA screening has been completed in accordance with the Council's Strategic Equality Plan and supplementary guidance. No potential for unlawful discrimination and/or low level or minor negative impact has been identified regarding this report; therefore a full EIA has not been carried out.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 As detailed throughout the report.

## **8. PERSONNEL IMPLICATIONS**

- 8.1 Where staff reductions are required the Council will firstly try to achieve this through 'natural wastage' and not filling vacancies. However, where this is not possible then every opportunity will be taken to find alternative employment through the Council's redeployment policy. The Council will also utilise other policies as appropriate e.g. voluntary severance.

## **9. CONSULTATIONS**

- 9.1 The draft savings proposals for 2017/18 continue to follow the principles previously agreed by Council which in essence seek to limit the impact of savings on front-line services. The proposed savings for 2017/18 will have limited (if any) impact on the public so the extensive consultation process that has been followed in recent years will not be necessary. Steps will be taken to consult and engage with key stakeholders but this will be a more general approach than last year as we do not have long lists of saving proposals to consult upon.
- 9.2 Special Scrutiny Committee meetings have been scheduled throughout December 2016 to provide Members with the opportunity to comment upon the draft 2017/18 budget proposals.

## **10. RECOMMENDATIONS**

- 10.1 Cabinet is asked to: -
- 10.1.1 Endorse the draft 2017/18 budget proposals including the proposed savings totalling £8.653m.
- 10.1.2 Support the proposal to increase Council Tax by 1% for the 2017/18 financial year to ensure that a balanced budget is achieved (Council Tax Band D being set at £1,011.96).
- 10.1.3 Agree that the draft budget proposals should now be subject to consultation prior to final 2017/18 budget proposals being presented to Cabinet and Council in February 2017.

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 Council is required annually to approve proposals to set a balanced budget and agree a Council Tax rate.
- 11.2 Council is required to put in place a sound and prudent financial framework to support service delivery.

## **12. STATUTORY POWER**

12.1 The Local Government Acts 1998 and 2003.

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Consultees: Corporate Management Team  
Gail Williams, Interim Head of Legal Services & Monitoring Officer  
Cllr Keith Reynolds, Leader  
Cllr Barbara Jones, Deputy Leader & Cabinet Member for Corporate Services

Background Papers:

Provisional Local Government Financial Settlement (19th October 2016)

Council (24/02/16) - Budget Proposals 2016/17 and Medium-Term Financial Strategy 2016/2021

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