



CABINET – 18TH JANUARY 2017

SUBJECT: REVIEW OF MINIMUM REVENUE PROVISION POLICY

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

- 1.1 The attached report was presented to the Policy & Resources Scrutiny Committee on the 7th December 2016 and provided Members with options for proposed changes to the Council's Minimum Revenue Provision (MRP) policy. Members of the Scrutiny Committee were provided with the opportunity to comment upon the options presented prior to subsequent consideration by Cabinet and Council in January 2017.
- 1.2 Members noted that the 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. From 2007/8 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".
- 1.3 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.
- 1.4 The 2017/18 Draft Budget Proposals presented to Cabinet on 30th November 2016 included a savings proposal of £3.5m to be achieved through a review of the Council's MRP policy.
- 1.5 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 Capital Financing Requirement (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.
- 1.6 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 £16.073 as at the 1st April 2016, the 2016/17 MRP charge for unsupported borrowings is £0.831m.
- 1.7 Members were asked to consider 2 alternative options available for charging the MRP on supported and unsupported borrowings i.e. the Straight Line Method and Annuity Method, 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 assumed annuity rate of 2% for supported borrowing.
- The annuity rate for unsupported borrowing to be based on the average PWLB interest rate for new annuity loans in the year that an asset becomes operational.

- 1.8 An immediate recurring saving of circa £3.5m is available to support the 2017/18 revenue budget through adopting either of the proposed options. In addition to the revenue budget saving the straight-line approach will generate additional one-off sums of circa £3.8m in 2016/17 and £0.232m in 2017/18 to support the Capital Programme. The annuity approach will generate an additional one-off sum of circa £5.5m in 2016/17 and additional annual one-off sums to support the Capital Programme for a number of years as detailed in paragraph 4.6.8 of the report. The total MRP charge required to fully extinguish the CFR is the same under both the straight-line and annuity methods.
- 1.9 Members discussed the report at length and expressed concerns regarding the impact of the proposed changes on future generations. Members were assured that this has been considered and that the proposals in the 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 assets.
- 1.10 Following discussion on the content of the report, it was moved and seconded that the principles of the report be agreed, in favour of the annuity approach being applied to both supported and unsupported borrowing. By a show of hands (and in noting that there were 4 against) this was agreed by the majority present.
- 1.11 It was subsequently resolved that: -
- (i) It be noted that a Member 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.
 - (ii) In supporting the principles of the report and in favour of annuity being applied to both supported and unsupported borrowing, the proposed changes to the MRP policy be presented to Cabinet on the 18th January 2017 and then Council on the 24th January 2017.
- 1.12 Cabinet will wish to note that since the report was considered by the Policy & Resources Scrutiny Committee, confirmation has now been received via the Authority's External Auditor (Grant Thornton), that the Wales Audit Office (WAO) does not have any particular comments on the proposed changes and recognises that it is an approach similar to that adopted at other authorities.
- 1.13 Cabinet is asked to consider the report and recommendation from Policy and Resources Scrutiny Committee and determine whether they endorse this proposal, and recommend its acceptance to Council.

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Appendix: Report to Policy and Resources Scrutiny Committee dated 7th December 2016.