

## ***FULL COUNCIL REPORT***

Date Written	8 <sup>th</sup> March 2016
Report Author	Steve Jones
Service Area	Finance
Exempt/Non Exempt	Non Exempt
Committee Date	23 <sup>rd</sup> March 2016

*To: Mayor, Ladies and Gentlemen*

# **Amendment to the Minimum Revenue Provision Policy**

## **1.0 SUMMARY OF THE REPORT**

- 1.1 Under legislation Local Authorities are required to charge to their revenue account for each financial year a Minimum Revenue Provision (MRP) to account for the cost of their debt in that financial year.
- 1.2 For the 2015/16 and 2016/17 financial years Council approved a MRP Policy on the following basis:
  - (a) Regulatory Method – historic debt liability at 31<sup>st</sup> March 2007
  - (b) Asset Life Method – capital expenditure financed by borrowing from 1<sup>st</sup> April 2007
- 1.3 The Chief Finance Officer notified Council on 2<sup>nd</sup> March 2016 of ongoing discussions with the Wales Audit Office in determining a more prudent provision for the Council, based on the average useful economic lives of existing fixed assets, together with a review of current useful economic lives.
- 1.4 Communication received by the Wales Audit Office's Assistant Auditor General for Wales advised those Local Authorities considering amending their current MRP Policy to take account of the requirements of the 'Well-being of Future Generations (Wales) Act 2015'. The Chief Finance Officer considers the proposed amendment to be sensitive to both current and future citizens' needs.

1.5 The proposed amendment to the MRP Policy will realise projected annual revenue savings for 100 years plus, with the exception of the 28 year period 2038/39 to 2065/66 where increased annual revenue charges are projected. For the period 2015/16 to 2019/20 (final year of the current Medium Term Financial Plan) annual savings of circa £1.1 million are projected.

## 2.0 RECOMMENDATION(S) that

2.1 An amendment to the current MRP Policy, to one supporting a more prudent annual provision, be approved on the following basis:

2.1.1 Historic debt liability at 31<sup>st</sup> March 2007 – charged to revenue over 50 years by the straight line method

2.1.2 Post 1<sup>st</sup> April 2007 debt – from 2015/16 infrastructure assets charged to revenue over a maximum of 40 years

2.1.3 Post 1<sup>st</sup> April 2007 debt – from 2015/16 for capital expenditure where no asset life determined, charged to revenue over 50 years by the straight line method

## 3.0 INTRODUCTION AND BACKGROUND

3.1 Under the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, Local Authorities are required to charge to their revenue account for each financial year a Minimum Revenue Provision (MRP) to account for the cost of their debt in that financial year. Regulation 21 set out the method Authorities were required to follow in calculating MRP.

3.2 For the financial year 2007/08 and subsequent financial years, under the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008, the detailed calculation has been replaced with a requirement that local authorities calculate an amount of MRP which they consider to be **prudent**. The broad aim of prudent provision is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits.

3.3 The options for prudent provision are as follows:

- Regulatory Method – MRP is equal to the amount determined in accordance with the former 2003 Regulations as if it had not been revoked by the 2008 Regulations.
- Capital Financing Requirement (CFR) Method – MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.
- Asset Life Method – where capital expenditure on an asset is financed wholly or partly by borrowing, MRP is to be made in equal annual instalments over the life of the asset. Where capital expenditure is not incurred in the creation of an asset, MRP is to be made in equal annual instalments over a period reasonably reflecting the benefit arising from the expenditure.

- Depreciation Method – MRP is to be equal to the depreciation of that proportion of the asset on which expenditure has been financed by borrowing.
- 3.4 The 2008 Regulations recommend that prior to the commencement of each financial year a local authority prepares a statement of its policy on making MRP (Annual MRP Statement) and submits it to full Council. The following MRP Policy Statement was approved by Council of 25<sup>th</sup> February 2015 for the 2015/16 financial year and by Council of 2<sup>nd</sup> March 2016 for the 2016/17 financial year:
- Historic debt liability at 31<sup>st</sup> March 2007 – charged to revenue at 4% in accordance with the ‘Regulatory’ Method.
  - Capital expenditure financed by borrowing from 1<sup>st</sup> April 2007 – charged to revenue in accordance with the ‘Asset Life’ method. This will allow a charge to revenue over a period reasonably commensurate with the estimated useful life applicable to the nature of the expenditure, using the equal annual instalment method.

## **4.0 WALES AUDIT OFFICE GUIDANCE**

- 4.1 The Assistant Auditor General (AAG) for Wales in his letter to all Local Authorities in Wales, dated 7<sup>th</sup> January 2016, advised that where an amendment to current MRP policy is being considered, a Local Authority should take account of ‘The Well-being of Future Generations (Wales) Act 2015’ (the Act). This is because an amendment from the 4% reducing balance methodology to one based on asset lives will invariably result in a reduced MRP charge in the short-term but an increased MRP charge in the longer term.
- 4.2 In complying with the Act a Local Authority must ensure that its decisions are sustainable, whereby “the needs of the present are met without compromising the ability of future generations to meet their own needs”, and recognise “the importance of balancing short term needs with the need to safeguard the ability to meet long term needs”.
- 4.3 In addition the AAG advised that those Local Authorities wishing to amend their current MRP Policy should 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 Revenue Support Grant (i.e. a 4% reducing balance basis).

## **5.0 PRUDENT PROVISION**

- 5.1 The Chief Finance Officer notified Council of 2<sup>nd</sup> March 2016 of ongoing discussions with the Wales Audit Office (WAO) in reviewing the Council’s current MRP Policy in determining whether the current provision is still considered prudent. The basis of the proposal is for the ‘Asset Life’ method to be applied to all expenditure including

the historic debt liability at 31<sup>st</sup> March 2007, and for current economic useful lives to be reviewed.

5.2 The proposed amendment to the MRP Policy is based on the following methodology, discussed with the WAO:

- For the historic debt liability at 31<sup>st</sup> March 2007, the historic debt to be charged to revenue over 50 years by the straight line method, which is commensurate with the average of existing asset useful economic lives. In essence this replaces the 4% reducing balance method by a 2% straight line method.
- For post 1<sup>st</sup> April 2007 debt, a review of infrastructure assets concluded that the majority of Local Authorities in Wales apply useful economic lives of 40 years whereas Merthyr Tydfil CBC currently applies a maximum of 30 years. It is proposed that in respect of infrastructure assets, this Council applies a useful economic life of a maximum of 40 years, consistent with other Local Authorities.
- For post 1<sup>st</sup> April 2007 debt, in respect of capital expenditure where no asset life can be determined or where no asset is evident (for example a deferred charge where the Council allocates a capital grant to a third party) Merthyr Tydfil CBC has applied a default useful economic life of 25 years (linked to the 4% reducing balance methodology). It is proposed that capital expenditure of this nature be charged to revenue over 50 years by the straight line method, being commensurate with the average of existing useful economic lives.

5.3 The implications of the proposed amended MRP Policy for the 100 year period 2015/16 to 2114/15 is outlined in Appendix 1 and summarised in Table 1 for 2015/16 to 2019/20, with 2019/20 being the final year of the current 4 year Medium Term Financial Plan.

Table 1 – Implications of Proposed Amended MRP

Financial Year	Estimated Current MRP £'000	Proposed Amended MRP £'000	Difference £'000
2015/16	2,864	1,736	-1,128
2016/17	3,136	1,976	-1,160
2017/18	3,317	2,146	-1,171
2018/19	3,438	2,285	-1,153
2019/20	3,640	2,438	-1,202

5.4 It is evident from Table 1 that significant financial savings of circa £1.1 million per annum are anticipated over the period 2015/16 to 2019/20 arising from the proposed amendment to the MRP Policy.

5.5 In addressing the AAG's requirements in respect of the Act, the following should be noted from Appendix 1 in respect of the proposed amendment to the MRP Policy:

- A reduced charge to revenue is projected for the period 2015/16 to 2037/38
- An increased charge to revenue is projected for the period 2038/39 to 2065/66
- A reduced charge to revenue per annum is projected from 2066/67
- In respect of the pre 1<sup>st</sup> April 2007 debt, by the 4% reducing balance method, even after 100 years a liability of £794,000 still remains whereas with the 50 years straight line method the debt is totally extinguished by 2064/65 (i.e. by 50 years)

In conclusion, the proposed amendment to the MRP Policy determines a more prudent annual charge to revenue whilst acknowledging the Council's responsibility to its current and future citizens in responding to the requirements of the Act. Appendix 1 clearly demonstrates that by applying the proposed average asset useful economic life of 50 years on a straight line basis to the pre 1<sup>st</sup> April 2007 debt, this historic liability is actually extinguished after 50 years instead of leaving a residual debt balance for citizens 50 to 100 years plus into the future. This residual liability will mean that future citizens will be required to finance this historic debt, at the expense of real services making a real difference to citizens' lives.

- 5.6 In responding to the AAG's requirement in paragraph 4.3, the periodic valuation of the Council's fixed assets demonstrates that an average useful life of 50 years is prudent since it reflects current and future useful economic lives. In addition, a maximum useful life of 40 years for infrastructure assets is consistent with other Local Authorities.
- 5.7 Although discussions with the WAO remain ongoing it is recognised that the Council's amendment proposal is both prudent and sensitive to the well-being of future generations. The WAO however, has indicated that although it is not minded to challenge the proposed amendment to the MRP Policy, any new information prior to the certification of the annual accounts for the 2015/16 financial year may result in the proposed amendment not being supported.

## **6.0 FINANCIAL IMPLICATION(S)**

- 6.1 For the current financial year and for the period of the Medium Term Financial Plan 2016/17 to 2019/20, revenue savings of circa £1.1 million per annum are projected.
- 6.2 Annual revenue savings will continue to be realised until the 2037/38 financial year following which an increased charge to revenue is evident until the 2065/66 financial year (reaching a peak of circa £1.1 million) before annual savings are again realised from the 2066/67 financial year.

## 7.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

7.1 The Single Integrated Plan and Sustainability Impact Assessment has been completed and the proposals positively impact on the Financial Sustainability of Public Services and the Well-being of Future Generations.

## 8.0 EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment (EqIA) form has been prepared for the purpose of this report. It has concluded that the proposals have a positive impact on citizens and a non-discriminatory impact for all protected characteristics. The form can be accessed on the Council's website/intranet via the 'Equality Impact Assessment' link.

**GARETH CHAPMAN**  
**CHIEF EXECUTIVE**

**COUNCILLOR PHIL WILLIAMS**  
**CABINET MEMBER FOR GOVERNANCE**  
**AND CORPORATE SERVICES**

<b>BACKGROUND PAPERS</b>		
<b>Title of Document(s)</b>	<b>Document(s) Date</b>	<b>Document Location</b>
The Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008	3 <sup>rd</sup> March 2008	Finance Department
Budget and Council Tax 2015/16 – State of the Council Debate	25 <sup>th</sup> February 2015	Council agenda and minutes
Minimum Revenue Provision for the Redemption of Debt – letter received from the Assistant Auditor General for Wales	7 <sup>th</sup> January 2016	Finance Department
Budget Requirement and Council Tax 2016/17 – State of the Council Debate	2 <sup>nd</sup> March 2016	Council agenda and minutes
<b>Does the report contain any issue that may impact the Council's Constitution?</b>	<b>No</b>	

***Consultation has been undertaken with the Corporate Management Team in respect of each proposal(s) and recommendation(s) set out in this report.***

**Implications of Proposed Amendment to the MRP Policy**

Year	Date	Pre 01 April 2007 Debt					Post 01/04/07 Debt Asset Lives Difference £'000	Total MRP Difference £'000
		4% Reducing Balance CFR £'000	4% Reducing Balance MRP £'000	50 Year (2%) Straight Line CFR £'000	50 Year (2%) Straight Line MRP £'000	Difference £'000		
0	2014/15	47,684	1,914	47,684	1,914	0	0	0
1	2015/16	45,770	1,837	45,771	915	-921	-207	-1,128
2	2016/17	43,934	1,763	44,856	915	-848	-312	-1,160
3	2017/18	42,171	1,692	43,940	915	-777	-394	-1,171
4	2018/19	40,478	1,624	43,025	915	-709	-444	-1,153
5	2019/20	38,854	1,559	42,109	915	-644	-558	-1,202
6	2020/21	37,295	1,497	41,194	915	-581	-558	-1,139
7	2021/22	35,798	1,437	40,278	915	-521	-558	-1,079
8	2022/23	34,361	1,379	39,363	915	-464	-558	-1,022
9	2023/24	32,983	1,324	38,448	915	-408	-558	-966
10	2024/25	31,659	1,270	37,532	915	-355	-558	-913
11	2025/26	30,389	1,219	36,617	915	-304	-558	-862
12	2026/27	29,169	1,171	35,701	915	-255	-558	-813
13	2027/28	27,998	1,124	34,786	915	-208	-558	-766
14	2028/29	26,875	1,078	33,871	915	-163	-558	-721
15	2029/30	25,796	1,035	32,955	915	-120	-557	-677
16	2030/31	24,761	994	32,040	915	-78	-557	-635
17	2031/32	23,768	954	31,124	915	-38	-557	-595
18	2032/33	22,814	916	30,209	915	-0	-557	-557
19	2033/34	21,898	879	29,293	915	37	-514	-477
20	2034/35	21,019	844	28,378	915	72	-514	-442
21	2035/36	20,176	810	27,463	915	106	-426	-320
22	2036/37	19,366	777	26,547	915	138	-411	-273
23	2037/38	18,589	746	25,632	915	169	-373	-204
24	2038/39	17,843	716	24,716	915	199	-191	8
25	2039/40	17,127	687	23,801	915	228	-151	77
26	2040/41	16,440	660	22,886	915	256	-102	154
27	2041/42	15,780	633	21,970	915	282	11	293
28	2042/43	15,147	608	21,055	915	308	166	474
29	2043/44	14,539	583	20,139	915	332	292	624
30	2044/45	13,955	560	19,224	915	355	558	913
31	2045/46	13,395	538	18,308	915	378	670	1,048
32	2046/47	12,858	516	17,393	915	399	716	1,115
33	2047/48	12,342	495	16,478	915	420	644	1,064
34	2048/49	11,847	475	15,562	915	440	664	1,104



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35	2049/50	11,371	456	14,647	915	459	684	1,143
36	2050/51	10,915	438	13,731	915	477	684	1,161
37	2051/52	10,477	420	12,816	915	495	647	1,142
38	2052/53	10,056	404	11,900	915	512	625	1,137
39	2053/54	9,653	387	10,985	915	528	594	1,122
40	2054/55	9,266	372	10,070	915	544	558	1,102
41	2055/56	8,894	357	9,154	915	559	474	1,033
42	2056/57	8,537	343	8,239	915	573	440	1,013
43	2057/58	8,194	329	7,323	915	587	387	974
44	2058/59	7,865	316	6,408	915	600	354	954
45	2059/60	7,550	303	5,493	915	612	339	951
46	2060/61	7,247	291	4,577	915	625	300	925
47	2061/62	6,956	279	3,662	915	636	293	929
48	2062/63	6,677	268	2,746	915	647	288	935
49	2063/64	6,409	257	1,831	915	658	288	946
50	2064/65	6,152	247	915	915	669	268	937
51	2065/66	5,905	237	0	0	-237	244	7
52	2066/67	5,668	227	0	0	-227	213	-14
53	2067/68	5,440	218	0	0	-218	151	-67
54	2068/69	5,222	210	0	0	-210	109	-101
55	2069/70	5,013	201	0	0	-201	0	-201
56	2070/71	4,811	193	0	0	-193	0	-193
57	2071/72	4,618	185	0	0	-185	0	-185
58	2072/73	4,433	178	0	0	-178	0	-178
59	2073/74	4,255	171	0	0	-171	0	-171
60	2074/75	4,084	164	0	0	-164	0	-164
61	2075/76	3,920	157	0	0	-157	0	-157
62	2076/77	3,763	151	0	0	-151	0	-151
63	2077/78	3,612	145	0	0	-145	0	-145
64	2078/79	3,467	139	0	0	-139	0	-139
65	2079/80	3,328	134	0	0	-134	0	-134
66	2080/81	3,194	128	0	0	-128	0	-128
67	2081/82	3,066	123	0	0	-123	0	-123

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68	2082/83	2,943	118	0	0	-118	0	-118
69	2083/84	2,825	113	0	0	-113	0	-113
70	2084/85	2,712	109	0	0	-109	0	-109
71	2085/86	2,603	104	0	0	-104	0	-104
72	2086/87	2,498	100	0	0	-100	0	-100
73	2087/88	2,398	96	0	0	-96	0	-96
74	2088/89	2,302	92	0	0	-92	0	-92
75	2089/90	2,210	89	0	0	-89	0	-89
76	2090/91	2,121	85	0	0	-85	0	-85
77	2091/92	2,036	82	0	0	-82	0	-82
78	2092/93	1,954	78	0	0	-78	0	-78
79	2093/94	1,876	75	0	0	-75	0	-75
80	2094/95	1,800	72	0	0	-72	0	-72
81	2095/96	1,728	69	0	0	-69	0	-69
82	2096/97	1,659	67	0	0	-67	0	-67
83	2097/98	1,592	64	0	0	-64	0	-64
84	2098/99	1,528	61	0	0	-61	0	-61
85	2099/00	1,467	59	0	0	-59	0	-59
86	2100/01	1,408	57	0	0	-57	0	-57
87	2101/02	1,352	54	0	0	-54	0	-54
88	2102/03	1,297	52	0	0	-52	0	-52
89	2103/04	1,245	50	0	0	-50	0	-50
90	2104/05	1,195	48	0	0	-48	0	-48
91	2105/06	1,147	46	0	0	-46	0	-46
92	2106/07	1,101	44	0	0	-44	0	-44
93	2107/08	1,057	42	0	0	-42	0	-42
94	2108/09	1,015	41	0	0	-41	0	-41
95	2109/10	974	39	0	0	-39	0	-39
96	2110/11	935	38	0	0	-38	0	-38
97	2111/12	897	36	0	0	-36	0	-36
98	2112/13	861	35	0	0	-35	0	-35
99	2113/14	827	33	0	0	-33	0	-33
100	2114/15	794	32	0	0	-32	0	-32