Public Document Pack

Contact Officer:
Nicola Gittins 01352 702345
nicola.gittins@flintshire.gov.uk

To: Cllr Aaron Shotton (Leader)

Councillors: Bernie Attridge, Chris Bithell, Helen Brown, Derek Butler, Christine Jones, Kevin Jones and Billy Mullin

30 November 2016

Dear Councillor

You are invited to attend a meeting of the Cabinet which will be held at 9.00 am on Tuesday, 6th December, 2016 in the Clwyd Committee Room, County Hall, Mold CH7 6NA to consider the following items

A G E N D A

1 **APOLOGIES**

Purpose: To receive any apologies.

2 **DECLARATIONS OF INTEREST**

Purpose: To receive any Declarations and advise Members accordingly.

TO CONSIDER THE FOLLOWING REPORT

STRATEGIC REPORT

3 **2017/18 COUNCIL FUND BUDGET – STAGE 2** (Pages 3 - 38)

Report of Chief Executive and Corporate Finance Manager - Leader of the Council and Cabinet Member for Finance

Purpose: To consider the feedback from the special Corporate Resources Overview and Scrutiny on 30th November 2016 and recommend approval to Council of the Corporate Financial Stewardship options outlined in the report.

Yours sincerely

Robert Robins
Democratic Services Manager

This page is intentionally left blank

CABINET

Date of Meeting	Tuesday, 6 December 2016
Report Subject	2017/18 Council Fund Budget – Stage 2
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive and Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The annual Council Fund budget for 2017/18 has been developed in two stages:

- Stage One: which covers Part 1 of our Medium Term Financial Strategy (MTFS) – service reform based on the service portfolio plans; and
- Stage Two: which covers Parts 2 and 3 of our Medium Term Financial Strategy (MTFS) – corporate financial stewardship and working with Welsh Government.

The Stage One proposals were approved by Council in November.

The Stage Two proposals on corporate financial stewardship were to be considered by Corporate Resources Overview and Scrutiny Committee on 30 November 2016. Written feedback will be provided from the Overview and Scrutiny Committee prior to this meeting.

RECOMMENDATIONS	
1	That Cabinet consider the feedback from the Special Corporate Resources Overview and Scrutiny meeting held on 30 November.
2	That Cabinet recommend to Council a final set of detailed proposals for Stage Two of the budget.

REPORT DETAILS

1.00	**EXPLAINING THE PROGRESS MADE ON THE 2017/18 BUDGET**
1.01	The annual council fund budget for 2017/18 is being developed in two stages: • Stage One: which covers Part 1 of our Medium Term Financial Strategy (MTFS) – service reform based on the service portfolio plans; and • Stage Two: which covers Parts 2 and 3 of our Medium Term Financial Strategy (MTFS) – corporate financial stewardship and working with Welsh Government. Stage One of the budget was concluded at the Council meeting in November. Cabinet and Council gave first consideration to the Stage Two developing proposals in November. The proposals were referred to the Corporate Resources Overview and Scrutiny Committee for detailed review. The feedback of the Committee which met on 30th November 2016 will be provided for the Cabinet meeting. The detailed Stage Two report presented to the Overview and Scrutiny Committee is appended.

2.00	**RESOURCE IMPLICATIONS**
2.01	As set out in the report to Corporate Resource Overview and Scrutiny Committee which is appended to this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Consultation with Group Leaders, Overview and Scrutiny Committees, senior officers and service teams, and external partners were held in the development of the business plans, budget proposals and financial resilience assessments. Specialist external advisors and our external auditors were specifically consulted on the review of Minimum Revenue Provision (MRP). Their advice was reported to the Overview and Scrutiny Committee. Council formally approved Stage One of the budget, and was given an overview of the developing Stage Two proposals in November.

4.00	**RISK MANAGEMENT**
4.01	The budget proposals have been risk assessed stage by stage. Statements of risk and mitigation are included in the respective reports

	over the process of budget development and approval. Specific risk statements on each of the Stage Two proposals are included within the appended report.

5.00	**APPENDICES**
5.01	Report to Corporate Resource Overview and Scrutiny Committee on 30th November.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	**Contact Officer:** Colin Everett, Chief Executive and Gary Ferguson, Corporate Finance Manager **Telephone:** 01352 702121 **E-mail:** Chief.executive@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	**Medium Term Financial Strategy (MTFS):** a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations. **Revenue Support Grant:** the annual amount of money the Council receives from Welsh Government to fund what it does alongside the Council Tax and other income the Council raises locally. Councils can decide how to use this grant across services although their freedom to allocate according to local choice can be limited by guidelines set by Government. **Specific Grants**: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose. **Central Loan and Investment Account (CLIA):** brings together the revenue costs of all Council's borrowing and investment activity. Contains; interest on debt, MRP (see below), Treasury Management costs (staff, advisors, software etc., charges for debt rescheduling undertaken in earlier years and income generated from investments. Also referred to as Capital Financing Charges. **Minimum Revenue Provision (MRP):** method for charging (debt-funded) capital expenditure to the revenue account in local authority accounts. Full Council sets an MRP policy annually selecting from a range of options contained with Welsh Regulations set by Welsh Government. **Supported Borrowing:** funding is provided by Welsh Government through the Revenue Support Grants to cover the revenue debt financing costs of

	interest and provision for debt repayment. **Council Tax Premium:** The introduction of the Housing (Wales) Act 2014 now gives local authorities in Wales the discretion to charge up to a 100% council tax premium on long term empty properties and/or second homes/holiday homes from April 2017 (in addition to the standard level of Council Tax paid). For the purpose of charging the Premium, long term empty properties are defined as those which are both unoccupied and unfurnished for a continuous period of at least one year. Second homes are defined as properties which are not a person's sole or main residence and substantially furnished. **Welsh Local Government Association:** the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.

CORPORATE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE

Date of Meeting	Wednesday, 30 November 2016
Report Subject	2017/18 Council Fund Budget – Stage 2
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Chief Executive and Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The annual Council Fund budget for 2017/18 is being developed in two stages:

- Stage One: which covers Part 1 of our Medium Term Financial Strategy (MTFS) – service reform based on the service portfolio plans; and
- Stage Two: which covers Parts 2 and 3 of our Medium Term Financial Strategy (MTFS) - corporate financial stewardship and working with Welsh Government.

On the recommendation of Cabinet, the Council at its recent meeting (15 November) approved Stage One of the budget in advance of the completion and presentation of the full and final budget in February 2017.

Both Cabinet and Council considered, in the same series of November meetings, the working proposals for Stage Two of the budget. These working proposals have been referred to the Corporate Resources Overview and Scrutiny Committee for review, scrutiny and comment.

This report sets out the Stage Two proposals in more detail and provides a statement of risk on each proposal. The commentary of the Committee will be reported back to Cabinet for consideration on 6 December. Cabinet will make recommendations on Stage Two, having taken into account the comments and advice of the Committee, to Council later that day.

RECOMMENDATIONS	
1	To review, scrutinise and comment on the Corporate Financial Stewardship proposals.
2	To offer any other options for consideration for balancing the budget as part of Stage Two.

REPORT DETAILS

1.00	**Financial Strategy and Forecast**
1.01	The Council has recently updated its three year Medium Term Financial Strategy (MTFS) for the period 2016/17 – 2018/19 The new summary is available in hard copy on request and can be accessed by following the hyperlink: http://www.flintshire.gov.uk/en/PDFFiles/Medium-Term-Financial-Strategy/2016-19-summary-document/Medium-Term-Financial-Strategy-Summary-2016-2019.pdf
1.02	In April this year the Cabinet re-adopted the three part approach for financial planning set out within the MTFS. This three part strategy forms the basis for planning the annual budget for 2017/18 and the financial years immediately thereafter:- • Service Reform (Part 1) • Corporate Financial Stewardship (Part 2) • Working with Welsh Government (Part 3)
1.03	The annual budget is being developed in two stages: • Stage One: which covers Part 1 of our Medium Term Financial Strategy (MTFS) – service reform based on the service portfolio plans; and • Stage Two: which covers Parts 2 and 3 of our Medium Term Financial Strategy (MTFS) - corporate financial stewardship and working with Welsh Government.
1.04	**The Financial Forecast** The original forecast for the 2017/18 financial year, the third and final year of this edition of MTFS, set a likely 'gap' of £13.7m. This forecast was updated and reported to the Overview and Scrutiny Committees in July 2016 as set out in Table 1 below.

1.05	**Table 1: Financial Forecast 2017/18-2018/19**

		2017/18	2018/19
Expenditure		**£m**	**£m**
National Pressures		0.7	0.3
Local Pressures		6.2	1.6
Inflation		3.1	3.2
Workforce Pressures		4.1	0.7
Income			
Reduction in Revenue Support Grant		2.8	2.7
Council Tax increase		(2.5)	(2.3)
Projected Gap		14.40	6.20

Footnotes to Table 1:

1. Revenue Support Grant for 2017/18 and 2018/19 is modelled on an illustrative reduction of 1.5%
2. National and local pressures are working estimates based on latest information. The latest revision includes initial estimates of the sizeable increase in care sector costs, and insurance costs
3. Pay inflation is assumed at 1% for 2017/18 and 2018/19
4. Limited provision is made for price inflation
5. Workforce pressures include the ongoing impact of Single Status, Auto-enrolment, the Apprentice Tax Levy and the outcome of the Clwyd Pension Fund Actuarial Review
6. Council Tax is illustrated at a 3% annual increase for 2017/18 and 2018/19

1.06 **Stage 1 – Service Reform**

This part of the budget planning for 2017/18 is now complete following the resolution passed by Council on 15 November.

1.07 **Stage 2 - Part 2 Corporate Financial Stewardship**

As the second part of the budget strategy, detailed work has been undertaken to offset or reduce cost pressures through corporate financial stewardship. The outcomes of this work is summarised in Table 2 below.

1.08 **Table 2: Corporate Financial Stewardship**

Description		**£m**
Council Tax Base Increase		0.345
Independent Living Fund (ILF)		0.412
Transition to Adulthood		0.162
Flint Extra Care Scheme		0.170
Schools Investment		0.400
Apprentice Tax Levy		0.470
Central Loans and Investment Account (CLIA)		2.690
Total		4.649

Each of these budget proposals is explained in detail in the paragraphs which follow.

1.09 Council Tax Base

The original forecast for 2017/18 estimated an increase in the Tax Base of 0.75% in growth. Latest projections on number of new builds coupled with the requirement to build into the Tax Base the number of households that will be liable for the Council Tax Premium (bringing Council Tax on these properties to 150%) results in Tax Base growth of 1.25%.

The change in the forecast to the tax base has resulted in an increased level of income of £0.345m.

Risk statement: The level of risk to achieving this income target is low. Treatment is in accordance with guidance issued in October and a report on the Council Tax base was reported to Cabinet in November.

1.10 Independent Living Fund (ILF)

UK Government had previously announced that the ILF would cease and that the responsibility for service users in the future would rest with devolved administrations.

Flintshire supports a number of clients whose living care and support needs are funded via the ILF. This represents around 8.3% of the total ILF recipients living in Wales. The Social Services budget does not have the capacity to cater for this need in the event of there being no other alternative funded service framework to meet the ongoing needs of Flintshire residents who are current ILF clients.

An amount of £0.412m had previously been included as a pressure to reflect the negative impact of this specific grant transferring into the main revenue support grant and the direct funding being lost. It has since been confirmed that the specific grant will continue at the same level for a further year. This means that the pressure can now be removed.

Risk statement: The level of risk is low for 2017/18 with the continuation of specific funding for an additional year. The risk remains that the grant will be withdrawn in future years.

1.11 Transition to Adulthood

Each year an assessment is made of the future pressures on Adult Social Services budgets based on the numbers of clients who are expected to have ongoing Social Care needs as they enter adulthood from childhood support. Such clients, who will become future school leavers, are assessed individually for future care needs.

The original forecast for 2017/18 included a budget pressure of £0.640m for transition costs of social care clients moving into adulthood from Children's Services.

A detailed and rigorous review of current client information has identified a reduction in the previous estimate. This results in a saving of £0.162m in 2017/18 with the overall pressure for transition being revised to £0.478m.

Risk statement: The level of risk is low as the current estimate is based on a rigorous review of the care needs of current clients. However, any changes to the specific needs of clients, or any increase in the number of clients presenting for support, could increase the costs pressures.

1.12 <u>Flint Extra Care Scheme</u>

The 2017/18 forecast currently includes a six month pressure of £0.250m for the costs of the above scheme together with a further pressure of £0.250m in 2018/19 - bringing the total pressure included in the MTFS to £0.500m.

The cost pressure is based on the running costs of an new extra care facility, mainly employee and premises costs.

The opening of the new facility is now set to be in early 2018. Therefore, the pressure for 2017/18 has been reduced by £0.170m to reflect the revised project timeframe.

Risk Statement: The level of risk for 2017/18 is low. However, there will be a need to increase the amount required in the 2018/19 base budget to reflect the full annual operating costs of the new facility. Extra care is an improvement objective priority of the Council.

1.13 <u>Schools Investment</u>

A full review of the level of school investment, including the levels of reserves held in the primary and secondary sector has been completed. The outcome of this work is that an uplift of 1.34% has been included for the overall schools budget. The level of uplift is £0.400m lower than first set out in the budget forecast.

The options for distributing this funding to schools will need to take account of changes in demography, identified cost pressures, and the level of balances held across each sector.

The level of reserves held by schools at the end of the 2015/16 financial year was as follows; primary schools £2.6m, secondary schools in deficit by £0.455m, and specialist schools £0.197m. The current forecasts for secondary schools shows a worsening financial position. The method for distributing the funding across schools is currently being worked through. The aim is to provide a base level of funding across all three sectors with a proportion of funding targeted to meet the identified need. There is ongoing consultation with the Heads Federations and the Schools Budget Forum.

Risk Statement: The level of risk for 2017/18 is medium as the Council cannot meet the inflationary pressure being faced by schools in full. The ongoing sustainability of school budgets remains a concern.

1.14 Apprentice Tax Levy

The Apprenticeship Levy will be a levy on UK employers to fund new apprenticeships. In England, control of apprenticeship funding will be put in the hands of employers through the Digital Apprenticeship Service.

Welsh Government is yet to confirm arrangements for the use of the new levy which is due to be implemented at UK level from 1st April 2017. Use of the levy will be devolved in Wales. Updated guidance of the levy was received in October. This set out in more detail the basis on which the levy is to be calculated. This in turn led to further detailed modelling of the potential impact.

The outcome of this calculation is that the levy of the Council, based on its workforce size, will be £0.699m. This is £0.229m higher than the original forecast of £0.470m following the publication of the guidance.

In view of the Council's commitment to apprenticeships it is reasonable to press for full or part cost recovery through any distribution methodology set up by Welsh Government.

For 2017/18 it is recommended that the levy is paid from reserves. A future funding strategy will be needed from 2018/19. For 2017/18 temporary funding from reserves will have a positive impact on the budget forecast of £0.470m.

Risk Statement: The level of risk is low for 2017/18 due to the planned use of reserves. The risk level for future years is, in the absence of any working proposals for the use of the levy funds in Wales, high.

1.15 Central Loans and Investment Account (CLIA)

The CLIA is the budget that brings together the costs and income generated from all the Council's borrowing and investing activity. Two of the biggest features are interest on debt, and provision for debt repayment called the Minimum Revenue Provision (MRP).

Regulations require a local authority to each year set aside some of their revenue resources, as provision for the repayment of debt. This should be done in a way which is considered to be 'prudent'. There is a requirement to prepare an annual statement on the authority's policy for making minimum provision (MRP Policy). The Regulations do not define 'prudent' provision. Whilst Welsh Government have issued guidance - it is a judgement for the authority to make.

A review of the Council's MRP Policy has been completed with advice from a standing external and independent advisor with wide experience of similar reviews with other authorities across England and Wales. The advice has centred on the options for accounting for this annual charge. A comprehensive report detailing all of the considerations was given to Cabinet in the last meeting cycle. This is attached as Appendix 1.

The report recommends that the MRP Policy broadly remains the same - with a change in the provision made for outstanding capital expenditure funded from supported borrowing. The prudence of all options was critically appraised with the tests of affordability and sustainability applied. The 'straight line' method of calculation is considered to be the most prudent option.

The recommendation is twofold:

- To fix the balance of outstanding capital expenditure funded from supported borrowing at the 31st March 2016, and transfer the method for calculating the MRP to a straight line method over a 50 year period. (The asset register was used to calculate, broadly, the useful life of assets as at 31st March as a proxy.)
- For capital expenditure funded from supported borrowing incurred from the 1st April 2016 onwards change to a straight line method of calculating MRP over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits for the tax payer.

The impact will provide an initial benefit to the 2016/17 budget of £2.924m, and a net impact on the 2017/18 forecast of £2.520m. The benefits gradually reduce each year and the difference in charges for the next 100 years are outlined in full in Appendix 1. The change would result in a net annual benefit for the next two five year terms of the Council.

Risk Statement: The level of is risk is low for 2017/18 as the bulk of the provision charged to revenue has been transferred to a fixed amount (for the next 50 years). Whilst there will be greater provision required for some years of the 50 year planning period the variations are reasonable in scale, and therefore affordable. The recommended method will lead to an eventual settlement of all historic debt and is a more sustainable method than the current method. The risk to the revenue budget in future year's centres around how the Council utilises its supported borrowing allocation from Welsh Government. When used to fund capital expenditure with a short period of benefit the charge to the revenue account will be higher than if used to fund capital expenditure with a longer period of benefit - for example, ICT equipment depreciates quicker and has a shorter asset life compared with a newly constructed school building.

1.16 The projected costs of interest on debt has also been reviewed. Interest rates, and the timing of borrowing was considered, with the impact of changing the MRP policy included. This has resulted in a reduction of £0.170m on the forecast previously included, mainly due to the interest rate on new debt being lower than originally forecast as a result of the UK's decision to leave the European Union.

Risk Statement: The level of risk is medium for 2017/18, as interest on prior years debt is charged at fixed rates which forms the bulk of the interest costs. However, the interest rates on new debt is difficult to predict due to the level of volatility in financial markets that Brexit is causing.

1.17	**New and Emerging Pressures** As reported to Cabinet and Council in November, new and emerging pressures totalling £0.597m are now included in the budget proposals and further details on these are included in section 1.18 – 1.22.
1.18	Non – Domestic Rates Revaluation The Valuation Office Agency (VOA) has recently published the national results of a National Domestic Rates revaluation of rateable values for business properties which takes effect from 1st April 2017. The financial impact for the Council has been analysed as many of our own commercial properties are seeing rateable value increases particularly, schools, car parks and Council buildings. Overall, this has resulted in additional costs of £0.127m for Council properties.
1.19	Welsh Language Standards In order to comply with the new Welsh Language Standards an additional cost requirement of £0.035m is required for translation services.
1.20	Members' Allowances Each year, the Independent Remuneration Panel for Wales (IRPW) determines the rates of payment which are to be made to elected and co-opted members of Welsh Local Authorities for the following municipal year. The recommended annual increase from Independent Remuneration Panel for member allowances requires additional budgetary provision of £0.007m (an increase of 0.75%)
1.21	Landfill Sites - Gas Engine Income Due to the reducing level of methane gas at the former landfill sites at Standard and Brookhill, the level of electricity generated has reduced further and income targets can no longer be achieved. This has caused an additional pressure (through loss of planned income) of £0.150m.
1.22	Workforce costs– unachieved efficiency An efficiency of £0.500m was included in the 2016/17 budget to reflect a managed further round of voluntary redundancies and other workforce costs. As reported in the budget monitoring report an amount of £0.222m has been achieved. The remaining £0.278m can no longer be achieved. All service business plans have maximised their workforce reduction cost targets. As reported previously to Cabinet and Overview and Scrutiny Committees the resilience of many services is rated as an 'amber' risk as a result of the reduction of workforce size and capacity. There is limited scope for further workforce reductions without compromising service resilience and continuity.

1.23	**Further ongoing considerations – Corporate Financial Stewardship** Work is ongoing in the following areas as detailed in paragraphs 1.24 to 1.28 below. This work, when complete, will need to form part of the final balancing considerations for the annual budget.
1.24	<u>Actuarial Review</u> As part of the triennial review of the Clwyd Pension Fund work is ongoing with the actuary to agree the employer pension contributions over the next three years. This work is nearing its conclusion. An increase in employer contributions costs of £1.3m has already been provided within the MTFS.
1.25	<u>Auto Enrolment</u> The Council's staging date for auto enrolment to the Pension Fund has been set as October 2017. A cost pressure of £0.558m is currently included in the forecast based on an assumption that 60% of eligible employees will remain in the scheme. There is an option to take a more risk based approach to this estimate and assume a lower level of take up and this will be subject to further consideration.
1.26	<u>Income Strategy</u> Work is also continuing on developing a corporate income policy covering all potential fees and charges, and the levels at which they are set. External expertise has been commissioned to guide this work with access to extensive information on charging policy and practice in other local authorities across the UK.
1.27	<u>Local Taxation levels</u> The forecast already assumes a Council Tax increase of 3% for 2017/18. The final level of Council Tax increase will be a decision for Members and will need to be considered in the context of the wider financial position at that time, including any changes proposed by other bodies such as the North Wales Fire and Rescue Authority whose levy is funded from Council Tax.
1.28	<u>Use of Reserves</u> There is the option for the prudent use of reserves to assist in the budget for 2017/18. The use of any reserves will only provide a one year solution.

1.29	**Part 3 – Working with Welsh Government** The Council continues to be actively involved in national discussions over the Welsh Government Budget for 2017/18 with the key issues under debate including:- • the need for medium term financial planning at national level; • sufficient and sustainable levels of Revenue Support Grant (RSG • reform of specific grants and retention of sufficient current grant funding levels to maintain services; • relaxing charging levels for services including domiciliary care; • meeting cost pressures of national legislative and public demand in key services such as social care; • recognition of the workforce cost impacts of the Living Wage in both directly provided services and commissioned services; and • local retention of Non Domestic Rate Relief (NNDR) growth by the collecting authority. (Growth is defined as the annual inflation in the NNDR yield for existing businesses plus additional contributions from new or expanding businesses within a County. The areas under debate are a mixture of short-term or (immediate) issues and longer term issues. An update follows in 1.31 – 1.35.
1.30	Welsh Local Government Provisional Settlement 2017/18 The Provisional Settlement was received on 19 October and a separate report to update Council which set out all of the details and the impact on our overall budget position was considered on 15th November.
1.31	In headline terms the settlement was broadly 'flatline' when taking account of adjustments which has a positive impact on the forecast reduction of 1.5% of £2.8m.
1.32	The provisional settlement received from Welsh Government was welcomed and is in line with the lobbying expectations of both the Council and the Welsh Local Government Association.
1.33	The Settlement amount included an additional amount of £25m across Wales in recognition of increasing pressures in social care.
1.34	Domiciliary Care - Charging Levels There has been no confirmation from Welsh Government of policy intentions for raising the charging cap from the current amount of £60 per week. An announcement is expected shortly with an expectation that the cap may be raised to in the region of £80 per week. For Flintshire this would generate additional income in the region of £0.500m.

1.35 The table below summarises the projected closing budget position taking into account the updates included in the report:

Table 4. Projected Budget Closing Position for 2017/18

Description		**£m**
Projected Budget "gap"		14.4
Less:		
Portfolio Business Plans		(5.7)
Corporate Financial Stewardship		(4.6)
Provisional Settlement		(2.8)
Add:		
New and Emerging Pressures		0.6
Remaining Budget "Gap"		1.9

1.36 **Budget Setting Process and Timetable**

Cabinet 15 November	Stage 1 and 2 Budget Proposals
Council 15 November	Approval of Stage 1 Proposals
Corporate Resources Overview & Scrutiny Committee 30 November	Review of corporate financial stewardship (Stage 2) proposals
Council 6 December	Approval of corporate financial stewardship proposals (Stage 2)
Cabinet / Council Feb 2017	Final Approval of Budget 2017/18
March 2017	Formal council tax setting

1.37 **Conclusions**

The report summarises the significant progress made to date to close the annual budget process and achieve a balanced budget, whilst continuing to ensure service continuity and investing in Council priorities (as set out in the Improvement Plan), through the Three Part Strategy adopted by the Cabinet. The Stage One service reform proposals from the service portfolio business plans were considered and approved by Cabinet and Council on 15 November.

This report sets out the Stage Two proposals on Corporate Financial Stewardship which will, if approved, contribute an additional £4.6m of efficiencies at low and manageable levels of risk. Stage Two is a major step forward in closing in on eliminating the budget gap.

Work continues on the projected budget position which shows a remaining gap of £1.9m.The remaining corporate financing options, income and taxation levels, recovering a higher proportion of the cost of domiciliary care (subject to national agreement) and the final level of investment to be made in the local schools funding formula, are the only issues under active consideration. All other avenues have been closed.

1.38	**The Future** The Council has published a summary of an updated Medium Term Financial Strategy (MTFS) for the current three year term. The Welsh Government has not been in a position to provide an indicative three year Provisional Settlement at such an early stage of its new term and in advance of the new Chancellor's first budget statement. Detailed work on a new version of the MTFS cannot be completed until there is more national information and guidance. In the meantime the forecast for 2018/19 onwards is being updated, with initial work on the scope which remains for local efficiencies and budget options.

2.00	**RESOURCE IMPLICATIONS**
2.01	As set out in the report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Consultation with Group Leaders, Overview and Scrutiny Committees, senior officers and service teams, and external partners have been held in the development of the business plans, budget proposals and financial resilience assessments.

4.00	**RISK MANAGEMENT**
4.01	All parts of the budget planning process are risk assessed stage by stage. An overall risk assessment and risk management statement will be produced for the annual budget for 2017/18. Services have already been assessed against efficiency, value for money and resilience with the assessment reported to the Overview and Scrutiny Committees in July 2016.

5.00	**APPENDICES**
5.01	Appendix 1: Report to Cabinet on 15th November 2016 – Review of Minimum Revenue Provision

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	**Council Fund Budget 2017/2018 Stages 1 and 2 – Agenda Item 10** **http://committeemeetings.flintshire.gov.uk/ieListDocuments.aspx?CId=143&MId=3964&LLL=0**

Contact Officer: Colin Everett, Chief Executive and Gary Ferguson, Corporate Finance Manager
Telephone: 01352 702121
E-mail: Chief.executive@flintshire.gov.uk

7.00 GLOSSARY OF TERMS

7.01 **Medium Term Financial Strategy (MTFS):** a written strategy which gives a forecast of the financial resources which will be available to a Council for a given period, and sets out plans for how best to deploy those resources to meet its priorities, duties and obligations.

Revenue Support Grant: the annual amount of money the Council receives from Welsh Government to fund what it does alongside the Council Tax and other income the Council raises locally. Councils can decide how to use this grant across services although their freedom to allocate according to local choice can be limited by guidelines set by Government.

Specific Grants: An award of funding from a grant provider (e.g. Welsh Government) which must be used for a pre-defined purpose.

Central Loan and Investment Account (CLIA): brings together the revenue costs of all Council's borrowing and investment activity. Contains; interest on debt, MRP (see below), Treasury Management costs (staff, advisors, software etc., charges for debt rescheduling undertaken in earlier years and income generated from investments. Also referred to as Capital Financing Charges.

Minimum Revenue Provision (MRP): method for charging (debt-funded) capital expenditure to the revenue account in local authority accounts. Full Council sets an MRP policy annually selecting from a range of options contained with Welsh Regulations set by Welsh Government.

Supported Borrowing: funding is provided by Welsh Government through the Revenue Support Grants to cover the revenue debt financing costs of interest and provision for debt repayment.

Council Tax Premium: The introduction of the Housing (Wales) Act 2014 now gives local authorities in Wales the discretion to charge up to a 100% council tax premium on long term empty properties and/or second homes/holiday homes from April 2017 (in addition to the standard level of Council Tax paid). For the purpose of charging the Premium, long term empty properties are defined as those which are both unoccupied and unfurnished for a continuous period of at least one year. Second homes are defined as properties which are not a person's sole or main residence and substantially furnished.

Welsh Local Government Association: the representative body for unitary councils, fire and rescue authorities and national parks authorities in Wales.

This page is intentionally left blank

CABINET

Date of Meeting	Tuesday 15th November 2016
Report Subject	Review of Minimum Revenue Provision
Portfolio Holder	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

Local Authorities are required each year to set aside some of their revenue resources as provision for the repayment of debt.

Regulations require an authority to each year make an amount of Minimum Revenue Provision (MRP) which it considers to be 'prudent'. The Regulations themselves do not define 'prudent' provision. Welsh Government (WG) has provided guidance which makes recommendations to local authorities on the interpretation of the term and authorities are required to prepare an annual statement of their policy on making minimum provision.

As part of the budget strategy for 2017/18 officers have critically reviewed the Council's MRP policy along with our treasury management advisors. The report outlines this review in detail. The review recommends that changes are made to the MRP calculation for past and outstanding capital expenditure which is funded from supported borrowing.

RECOMMENDATIONS	
1	Members approve and recommend to County Council for Council Fund (CF) outstanding debt that:- • Option 3 (Asset Life Method) be used for the calculation of the MRP in financial years 2016/17 and 2017/18 for the balance of outstanding capital expenditure funded from supported borrowing as at 31st March 2016. The calculation will be the 'straight line' method over 50 years. This represents an in year change of the approved and adopted policy for 2016/17 which was previously to use Option 1 (Regulatory Method);- • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2017/18 for all capital expenditure funded from supported borrowing from 1st April 2016 onwards. The calculation will be the 'straight line' method over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits. This represents a change of policy which was previously to use Option 1 (Regulatory Method); and- • Option 3 (Asset Life Method) be used for the calculation of the MRP in 2017/18 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements. This represents a continuation of the approved and adopted policy for 2016/17.
2	That members approve and recommend to the County Council for Housing Revenue Account (HRA) outstanding debt:- • Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2017/18 for all capital expenditure funded by debt. This represents a continuation of the approved and adopted policy for 2016/17.
3	Members approve and recommend to County Council that MRP on loans (which qualify as capital expenditure) from the Council to NEW Homes to build affordable homes be as follows:- • No MRP is made during the construction period. The first loan to NEW Homes to be a short term loan of approximately 18 months which will be refinanced once construction is completed. This represents a continuation of the approved and adopted policy for 2016/17. • MRP is equal to the repayments made by NEW Homes once capital repayments are being made. The second loan to NEW Homes to be a long term loan which will be repaid from rent from the affordable homes. The repayments made by NEW Homes will be classed, in accounting terms, as capital receipts, which can only be used to fund capital expenditure or repay debt which is a form of MRP. It is proposed to set aside the capital receipts (the capital repayments) made by NEW Homes to repay debt, being the Council's MRP policy for repaying the loan. This represents a continuation of the approved and adopted policy for 2016/17.

REPORT DETAILS

1.00	**EXPLAINING THE REVIEW OF MINIMUM REVENUE PROVISION**
	Background to Capital Expenditure and Financing
1.01	Capital expenditure is defined as expenditure to acquire, enhance or prolong the useful life of non-current assets, those which have a useful life of more than one year e.g. buildings or infrastructure improvements. Capital expenditure is funded from a combination of capital receipts, revenue contributions, specific grants and debt in the form of borrowing or other long term financing arrangements such as leasing. Borrowing can be either: • Supported borrowing - funding is provided by Welsh Government through the Revenue Support Grant to cover the revenue debt financing costs of interest and repayment costs; or. • Unsupported borrowing (commonly referred to as prudential borrowing) – Councils have the freedom to determine the level of borrowing considered affordable in revenue debt financing costs with no support from Welsh Government.
1.02	The annual charge to the revenue account for repaying debt is known as the Minimum Revenue Provision (MRP). Local Authorities are required each year, under the Capital Finance and Accounting Wales Amendment Regulations 2008, to set aside some of their revenue resources as provision for the repayment of debt. Regulation 22 of the 2008 Regulations requires an authority to, make an amount of MRP each year which it considers to be ‘prudent’, though the Regulations themselves do not define ‘prudent’ provision. Regulation 21(B) of the 2008 Regulations requires local authorities to have regard to guidance issued by Government.
1.03	The Welsh Government has issued guidance for the setting of MRP policy. It states that the broad aim of prudent provision is to ensure that the debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by the Welsh Government, reasonably commensurate with the period implicit in the determination of that grant. The WG guidance provides 4 options for making ‘prudent provision’ outlined below but states in its informal commentary that;- *‘The options are those likely to be most relevant for the majority of*

	authorities but other approaches are not meant to be ruled out, provided they are fully consistent with the statutory duty to make prudent revenue provision. Authorities must always have regard to the guidance, but having done so, may in some cases consider that a more individually designed MRP approach is justified. *The decision on what is prudent is for the Authority and it is not for the Welsh Government to say in particular cases whether any proposed arrangement is consistent with the statutory duty.'*
1.04	In a recent letter to all local authorities the Auditor General for Wales concurred that it is for each authority to determine what is a 'prudent' policy.
1.05	**Options for Prudent Provision within WG Guidance** Option 1 - Regulatory Method For capital expenditure funded from supported borrowing which is supported through funding in the Revenue Support Grant (RSG), authorities may continue to use the formula specified in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (the regulations which preceded the 2008 Regulations). Under this method the outstanding capital expenditure (known as the Capital Financing Requirement CFR) funded from supported borrowing less Adjustment A is written down annually by 4% on a reducing balance basis. Adjustment A is a commutation adjustment, a fixed value determined by changes to statutory regulations referred to above (which all Welsh Council's will have). For Flintshire the current 2016/17 calculation is (Council Fund): MRP = (CFR – Adj A) x 4% = (£150m - £1.7m) x 4% = £5.9m
1.06	Option 2 - Capital Financing Requirement Method The same as Option 1 without adjusting for Adjustment A, which results in a higher charge. MRP = CFR x 4% = £150m x 4% = £6.0m
1.07	Option 3 - Asset Life Method Provision is made over the estimated life of the asset for which debt is undertaken. This can be calculated using the 'straight line' method or the 'annuity' method. To illustrate the difference, as an example an asset which is purchased at a cost of £4m which has an estimated useful life of 50 years;- • Straight line method - equal annual MRP charge £4m / 50 years = £0.080m • Annuity or inflation method – annual MRP charge that takes the time

	value of money in the form of inflation into consideration Year 1 = £0.047m Year 2 = £0.048m Year 3 = £0.049m Year 4 = £0.050m Year 5 = £0.051m
1.08	Option 4 - Depreciation Method Alternatively, provision is made in accordance with the standard rules for depreciation accounting. The method is similar to option 3 above
1.09	Welsh Government guidance requires that either option 3 or 4 be used for all capital expenditure which is to be financed by unsupported borrowing or other long term liabilities. Options 1 and 2 are not permitted for this use.
1.10	**Housing Revenue Account (HRA)** Following the introduction of self-financing for the HRA and the voluntary exit from the negative subsidy system on 31st March, 2015, from 1st April 2015 the calculation of the HRA MRP is now similar to the Council Fund as set out in 1.02 above, with the following modifications: • Options 1 and 2 - the percentage is 4% for the Council Fund and 2% for the HRA; and • Options 1 and 2 can be used in relation to capital expenditure incurred before 1st April 2021. After that date only Options 3 and 4 may be used.
1.11	The Council approved loans to its wholly owned subsidiary NEW Homes for the purpose of building affordable homes. The loans qualify as capital expenditure and therefore need to be part of the MRP policy. At its meeting on 14th June 2016 the Council approved the MRP calculation for loans to NEW Homes as outlined in recommendation 3 above.
1.12	The Council's current MRP policy is as follows: • Council Fund capital expenditure funded by supported borrowing on the basis of Option 1 - Regulatory Method calculation. • Council Fund capital expenditure funded by unsupported (prudential) borrowing or credit arrangements on the basis of Option 3 - Asset Life Method calculation. • HRA capital expenditure funded by debt, on the basis of Option 2 - Capital Financing Requirement Method calculation; and • Loans to NEW Homes – as outlined in recommendation 3 above.
1.13	It is important to note the capital financing position on outstanding capital expenditure and the Council's external borrowing. The table below shows the position as at the 31st March 2016:

	£m
Outstanding capital expenditure funded by supported borrowing (Council fund and HRA)*	254.156
Outstanding capital expenditure funded by unsupported (prudential) borrowing (Council Fund and HRA)	19.637
Total outstanding capital expenditure – Capital Financing Requirement (Council Fund and HRA)	**273.793**
Total External Borrowing	251.496
Capital expenditure funded by internal cash resources	22.297

£22.297m of internal cash is being used to fund capital expenditure. This cash would otherwise have been invested at very low rates of return. External borrowing would also be that much more, at higher borrowing interest rates than any returns on cash invested.

** Council Fund total = £149.650m HRA total = £104.506m*

1.14 The MRP annual charge to the revenue account is based on the Capital Financing Requirement (the outstanding capital expenditure). It is not the same as the cash repayment of external borrowing.

The simplified example below illustrates the difference:
Assume a 10 year maturity loan of £15m is taken out to fund capital expenditure of £15m on an asset with a life of 20 years.

The annual MRP charge to the revenue account on straight line asset life basis is £15m / 20 years = £0.750m.

At year 10, the loan is repaid from cash on the balance sheet at £15m, but only £0.750m x 10 = £7.5m has been charged through the Council's revenue account. A decision would need to be made, either to take out another 10 year loan, or fund from internal cash resources for that 10 year period, dependent on the Council's position at that time.

Review of the Council's MRP Policy

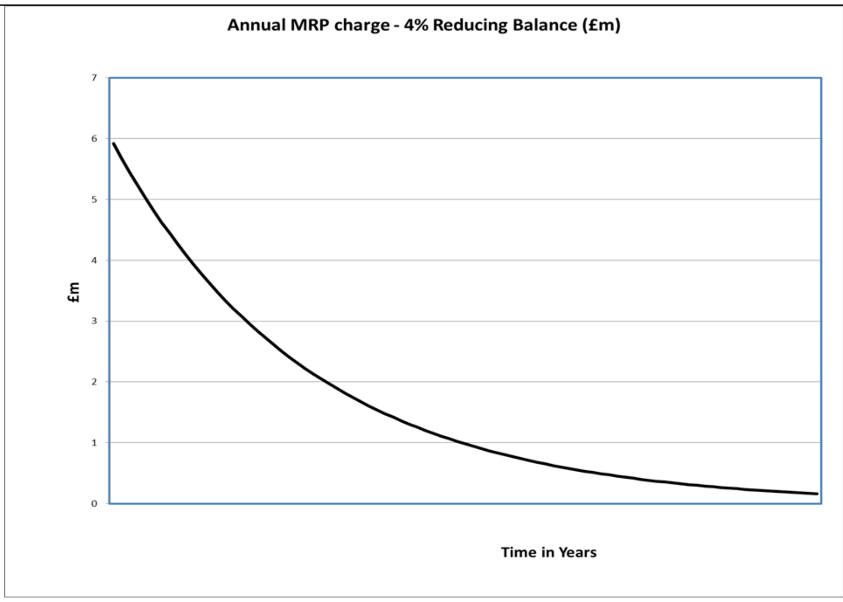
1.15 The review of the Council's MRP Policy has been considered as part of the overall Councils financial context and the Corporate Financial Stewardship part of the three-part budget strategy.

1.16 The Council last reviewed its MRP policy in the autumn of 2014 when setting the 2015/16 budget and adjusted its policy on capital expenditure funded by unsupported (prudential) borrowing by delaying the charge until the asset is in use.

1.17 Up until the last financial year, most local authorities in Wales had adopted a similar MRP policy as Flintshire as set out in 1.12 above. Recently, Welsh local authorities have begun to review and amend their MRP policies following discussions with their treasury management advisors, and their external auditors.

1.18 It was therefore appropriate that Flintshire undertook a more critical review

	of its MRP policy and engaged its treasury management advisors, Arlingclose, who have completed similar MRP reviews for English and Welsh Councils.
1.19	The options under consideration included: • 4% reducing balance (options 1 and 2 in 1.05 and 1.06 above), • straight line – equal repayment (options 3 and 4 in 1.07 above), and • annuity / inflationary method (options 3 and 4 in 1.07 above), for both supported and unsupported (prudential) borrowing funded capital expenditure. The differences of each option were explored with the concentration being on agreeing which would be the most prudent option.
1.20	Capital expenditure incurred by the HRA was not included in the review. When self-financing was introduced for the HRA and the negative housing subsidy system ended on 31st March 2015 considerable debate took place across Wales on a suitable MRP calculation for HRA assets. As landlord councils were implementing the Welsh Housing Quality Standard (WHQS) and investing in assets a 2% reducing balance method was considered appropriate and affordable and therefore agreed until 2021 when WHQS will be achieved. MRP on any capital expenditure after 2021 must be calculated in relation to asset lives. There is no proposal to amend the MRP policy for the HRA.
1.21	Given that the policy for calculating the MRP on loans made to NEW Homes was set in June 2016 and all options were thoroughly considered at the time, the method is still considered to be the most appropriate and therefore was not included in the review.
1.22	**4% Reducing Balance Method** The method implies that borrowing will be repaid over a 25 year period (in that 100% / 4% = 25), however as the calculation applies the 4% to the reducing balance it takes much more than 25 years to fully repay the borrowing. The table and graph below shows the MRP repayment profile of the £149.7m council fund capital expenditure funded by supported borrowing outstanding as at 31st March 2016:



Year	Annual MRP £m	Outstanding Capital Expenditure £m
2016/17	5.917	142.011
2017/18	5.680	136.331
2018/19	5.453	130.877
2019/20	5.235	125.642
2020/21	5.025	120.616

In 50 years' time from now £19m of capital expenditure will still be outstanding, and in 100 years' time £2.5m is still outstanding. It would take 179 years before the balance is below £0.100m and over 300 years to get to nil.

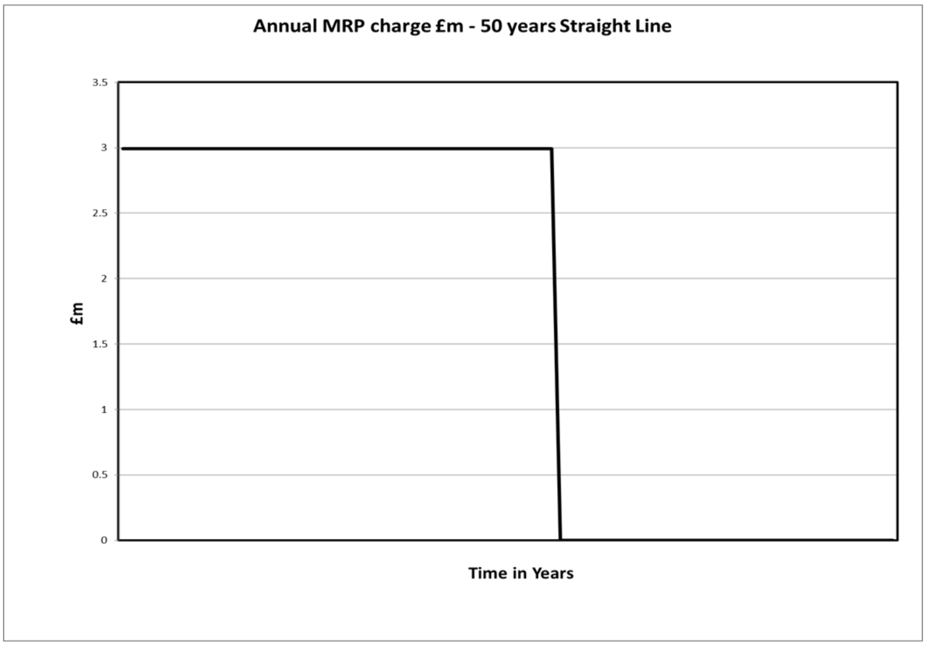
Using option 1, the regulatory method also means that there will always be £1.7m of capital expenditure outstanding, the equivalent of permanent Adjustment A.

1.23 The method is commensurate with the methodology used in the Revenue Support Grant to allocate revenue funding from WG to finance debt, as it also uses the 4% reducing balance method on notional outstanding debt. Any change in methodology would therefore break the link between costs charged to revenue (MRP) and the Revenue Support Grant funding received from WG. However, decisions around levels of expenditure on individual services are local decisions for each council to determine, with no part of the Revenue Support Grant being earmarked for particular services.

1.24 **Straight Line Method**

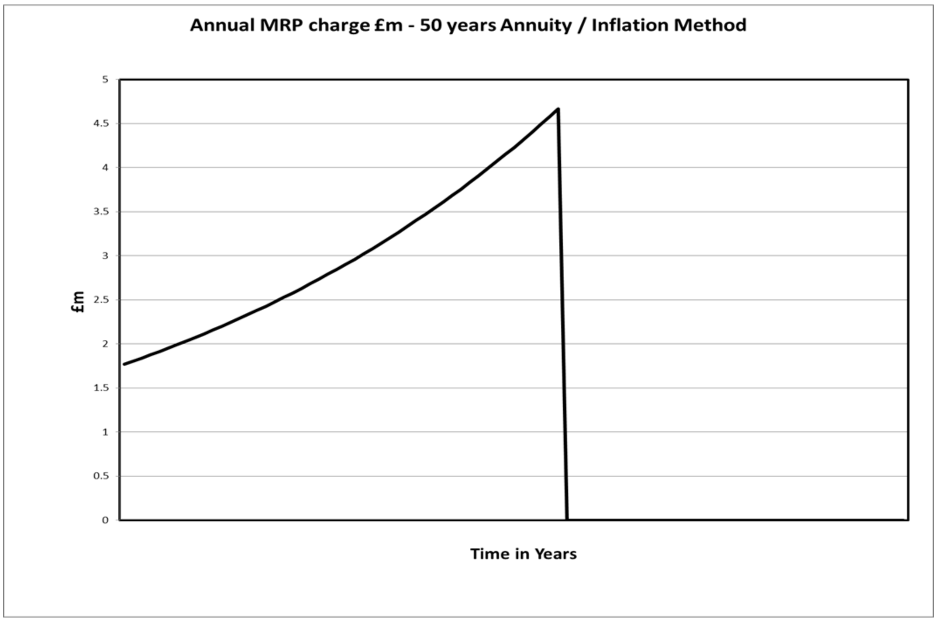
The method calculates an equal annual MRP charge to the revenue account over the useful estimated life of an asset.

For individual assets, funded from unsupported (prudential) borrowing, such as a newly built school building, the task of allocating an estimated useful

	is straight forward. For historic capital expenditure funded from supported borrowing, the task of allocating an estimated useful life is not so straight forward. The balance of outstanding capital expenditure has built up over a very long period of time. It will have increased for capital expenditure varying from, short lives for equipment and vehicles, to an infinite life for land, with limited records available of what expenditure was incurred. There will also be expenditure on assets that the Council does not own, for example, works at private properties where there is no asset life. It will have decreased every year for annual MRP charges made, but these would not have been allocated to specific capital expenditure and assets. There will also be a proportion of unfinanced capital expenditure that transferred from Clwyd County Council in 1996 during local government reorganisation, where the Council will simply have taken on a percentage of Clwyd County Council's outstanding capital expenditure based on population. The asset register has been used to calculate, broadly, the useful life of assets as at 31st March 2016 as a proxy for outstanding capital expenditure funded from supported borrowing at the same date. The weighted average life of Council fund assets as at 31st March 2016 was in excess of 50 years, and therefore 50 years has been used and is considered reasonable. The MRP repayment of the £149.7m council fund capital expenditure funded by supported borrowing outstanding as at 31st March 2016 would be £2.993m for the next 50 years. After 50 years the balance will have been fully repaid. The graph below illustrates: 
1.25	**Annuity / Inflation Method**

The method is similar to straight line in that MRP is charged to revenue over the assets useful life and fully repaid at the end of the useful life. An annuity rate is set for the period to reflect that over time the value of money decreases due to inflation. This produces a consistent and 'real' charge to the tax payer of using the asset over its life, however, at today's prices it is an increasing charge. 2% is the rate commonly used being the Bank of England's target rate for inflation.

The table and graph below shows the MRP repayment profile of the £149.7m council fund capital expenditure funded by supported borrowing outstanding as at 31st March 2016:



Year	Annual MRP £m
2016/17	1.769
2017/18	1.805
2018/19	1.841
2019/20	1.878
2020/21	1.915

1.26 **Conclusions**

'Prudence' is a subjective judgement. None of the options or methods described can be assessed as being the absolute correct method – this is a matter of judgement. Rather all options must be considered with the Council's particular circumstances borne in mind and a preferred option selected. The option must be first and foremost prudent but also sustainable and affordable over the long term.

1.27 As the MRP charge rises over time using the annuity / inflation method, from a budgetary perspective this isn't desirable and is therefore ruled out for this practical reason.

1.28 This then leaves 2 options under consideration – 'reducing balance' and 'straight line'.

For outstanding capital expenditure funded from unsupported (prudential) borrowing the regulations require a method based on the asset's life and therefore using the straight line method represents a continuance of the existing policy.

1.29 For outstanding capital expenditure funded from supported borrowing under the reducing balance method it takes a considerably longer period of time to repay the debt in full than the straight line method, where the debt is fully repaid in 50 years' time.

The straight line method is more closely aligned to the life of the Council's assets and the costs are spread more evenly among tax payers who will benefit from the capital expenditure / assets. All things considered the straight line method is viewed as more prudent when compared with the reducing balance method.

The straight line method is not without its flaws as outlined in para 1.23. The recommendation therefore is to transfer the balance of outstanding council fund capital expenditure funded from supported borrowing of £149.7m as at 31st March 2016 to an MRP repayment profile of straight line over 50 years.

To address the issues outlined in paragraph 1.23 any new capital expenditure funded from supported borrowing incurred from 2016/17 onwards would be grouped appropriately into assets with similar useful lives and the MRP calculation built up from each separate group of asset.

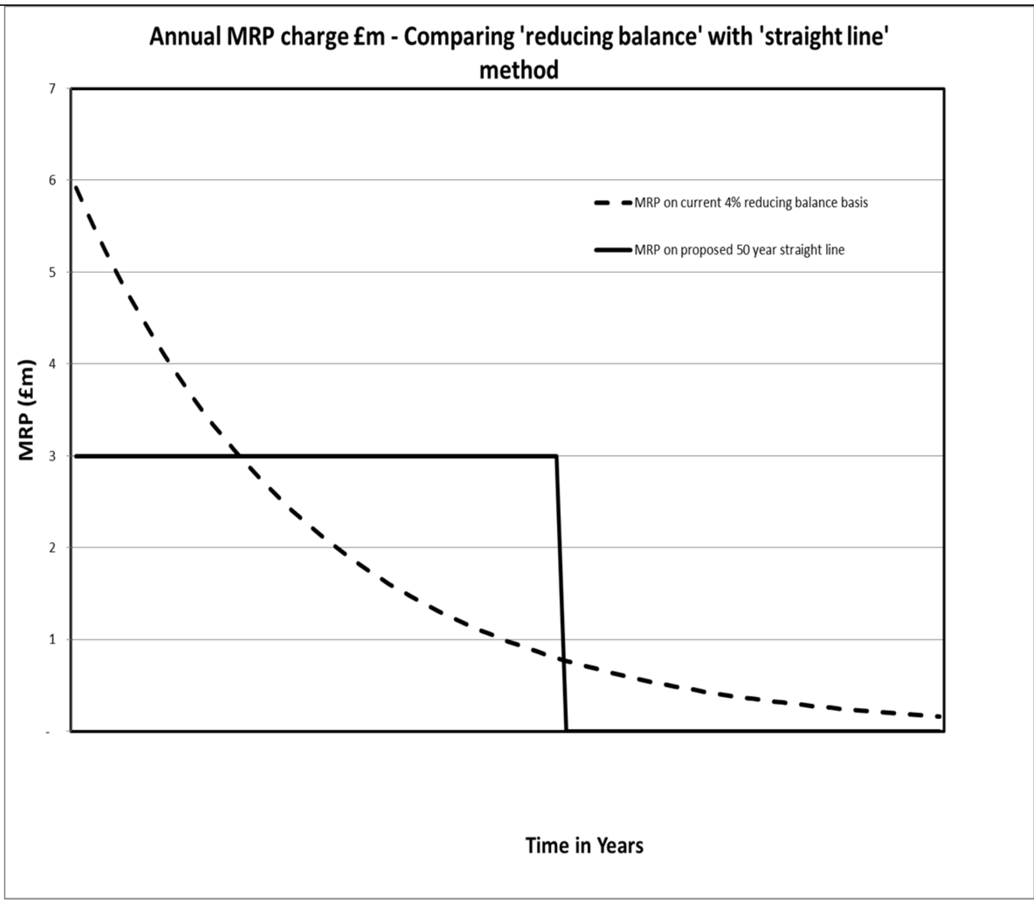
This represents an in year change to the MRP policy from option 1 regulatory method to option 3 asset life method.

2.00 RESOURCE IMPLICATIONS

2.01 The table below shows the difference in the MRP charge for outstanding council fund capital expenditure funded from supported borrowing as at 31st March 2016 using the current reducing balance method and the recommended revised straight line method for the next 5 years.

Year	MRP - 4% Reducing Balance (£m)	MRP – Straight Line 50 years (£m)	Variance – Cost / (Savings) (£m)
2016/17	5.917	2.993	(2.924)
2017/18	5.680	2.993	(2.687)
2018/19	5.453	2.993	(2.460)
2019/20	5.235	2.993	(2.242)
2020/21	5.025	2.993	(2.032)
			(12.345)

The table shows the significant savings that result from changing the MRP method in the earlier years, and the graph below plots the differences in MRP charges between the 2 methods over time.



A full 100 year analysis of the implications is shown at appendix 1. This demonstrates that there are savings in years 1 – 17, additional costs in years 18 - 50 and further savings in years 51 – 100. It also takes into account that £4.217m of debt which would still remain outstanding under the current method at year 100. When all of these savings and costs are discounted to allow for the time value of money it results in a positive Net Present Value of £5.019m.

2.02 The savings in the earlier years will result in lower cash balances than currently forecast in the MTFS and therefore there will be an additional interest cost pressure to be considered. Conversely in later years, the higher MRP results in interest savings. The implications of which will be factored into future cash-flow and interest cost computations within the central loans and investment account.

The estimated additional interest costs for the next 3 years are shown in the table below:

Year	Estimated additional interest costs (£m)
2016/17	0.018
2017/18	0.106
2018/19	0.170

2.03 For future capital expenditure incurred from 1st April 2016 onwards which is funded from supported borrowing, the MRP calculation will involve splitting into groups with similar useful lives which are then used to calculate the MRP charge on a straight line basis. This means that the MRP charge for each year will vary dependent on what the useful life of the expenditure is.

The table below shows the differences in MRP charges for both methods and varying useful lives, based on the 2016/17 supported borrowing allocation of £4.183m from Welsh Government:

MRP Charge	4% Reducing Balance (£m)	Straight Line 25 year life (£m)	Straight Line 35 year life (£m)	Straight Line 50 year life (£m)
2017/18	0.167	0.167	0.120	0.084
2018/19	0.161	0.167	0.120	0.084
2019/20	0.154	0.167	0.120	0.084
2020/21	0.148	0.167	0.120	0.084

Going forward for each financial year a recurring pressure for MRP will be built into the MTFS dependent on; the supported borrowing allocation from Welsh Government for the previous year and the useful life of that capital expenditure.

2.04 There are no resource implications other than financial.

3.00 CONSULTATIONS REQUIRED / CARRIED OUT

3.01 The proposed changes have been recommended following detailed discussions with the Council's treasury management advisors, senior internal officers and key Cabinet members.

Wales Audit Office is also being consulted as external auditors.

3.02 The proposed changes will be referred to the Corporate Resources Overview and Scrutiny Committee for comment before being discussed at County Council as part of Stage 2 of the budget in December.

4.00 RISK MANAGEMENT

4.01 The impacts of a change in MRP policy has long term effects that cannot be readily undone and therefore carries a significant amount of associated risk for future generations.

The Well-being of Future Generations (Wales) Act 2015, when fully enacted, will put in place a requirement to;

"act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs".

It also requires that authorities take account of, amongst other things;

"the importance of balancing short term needs with the need to safeguard the ability to meet long term needs".

	The recommendation to change the MRP policy for supported capital expenditure from reducing balance to straight line ensures that the costs are spread more evenly amongst the taxpayers benefiting from the capital expenditure. This is not considered as compromising the ability of future generations to meet their own needs merely that future generations pay for assets from which they benefit from using.

5.00	**APPENDICES**
5.01	Appendix 1 – MRP 100 year analysis

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Various Welsh Government papers. **Contact Officer:** Liz Thomas – Finance Manager, Technical Accountancy **Telephone:** (01352) 702289 **E-mail:** liz.thomas@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	**Capital Expenditure:** Expenditure on the acquisition of non-current assets or expenditure that extends the life or value of an existing asset **Capital Financing Requirement (CFR):** A measure of the capital expenditure incurred historically by an authority that has yet to be financed from capital receipts, capital grants or revenue financing. **Council Fund (CF):** The fund to which all the Council's revenue and capital expenditure is charged. **Housing Revenue Account (HRA):** The fund to which all the Council's revenue and capital expenditure relating to its housing stock is charged. **Minimum Revenue Provision (MRP):** A charge made to the Council Fund to repay borrowing taken out for capital expenditure. Authorities must determine their own prudent MRP charge each year, taking into consideration statutory guidance issued by the Government. **Prudential Code:** The code of practice drawn up by the Chartered Institute of Public Finance and Accountancy (CIPFA) to underpin the requirements of the Local Government Act 2003 in respect of an authority's duty to determine the affordability, prudence and sustainability of its capital investment needs. **Revenue Expenditure:** All expenditure incurred by an authority that cannot be classified as capital expenditure **Revenue Support Grant (RSG):** Is paid to each authority to cover the cost of providing standard services less the Council Tax income at the standard

	level. **Unhypothecated Supported Borrowing (USB), commonly referred to as Supported Borrowing:** Each year Welsh Government provide Council's with a Supported Borrowing allocation. Council's borrow to fund capital expenditure equivalent to that annual allocation, Welsh Government then include funding to cover the revenue costs associated with the borrowing for future years within the Revenue Support Grant. The Council decides how this funding is spent. **Unsupported Prudential Borrowing**: Borrowing administered under the **Prudential Code**, whereby authorities can set their own policies on acceptable levels and types of borrowing. The Prudential Framework allows authorities to take out loans in response to overall cash flow forecasts and other factors provided they can show that the borrowing is to meet planned capital expenditure in the current year or the next three years.

This page is intentionally left blank

APPENDIX 1

MRP 100 YEAR ANALYSIS - 4% REDUCING BALANCE AND 50 YEAR STRAIGHT LINE

CFR @ 31/03/2016 - CAPITAL EXPD (COUNCIL FUND) FUNDED FROM SUPPORTED BORROWING	**149,649,776**
Adjustment A	**1,721,525**
	147,928,251

Year		CFR	MRP on current 4% reducing balance basis	MRP on proposed 50 years straight line	Additional Cost/ (Saving)	Total Additional Cost / (Saving)	NPV Additional Cost / (Saving)
1	2016/17	147,928,251	5,917,130	2,992,996	(2,924,135)		
2	2017/18	142,011,121	5,680,445	2,992,996	(2,687,449)		
3	2018/19	136,330,676	5,453,227	2,992,996	(2,460,232)		
4	2019/20	130,877,449	5,235,098	2,992,996	(2,242,102)		
5	2020/21	125,642,351	5,025,694	2,992,996	(2,032,699)		
6	2021/22	120,616,657	4,824,666	2,992,996	(1,831,671)		
7	2022/23	115,791,991	4,631,680	2,992,996	(1,638,684)		
8	2023/24	111,160,311	4,446,412	2,992,996	(1,453,417)		
9	2024/25	106,713,899	4,268,556	2,992,996	(1,275,560)		
10	2025/26	102,445,343	4,097,814	2,992,996	(1,104,818)		
11	2026/27	98,347,529	3,933,901	2,992,996	(940,906)		
12	2027/28	94,413,628	3,776,545	2,992,996	(783,550)		
13	2028/29	90,637,083	3,625,483	2,992,996	(632,488)		
14	2029/30	87,011,599	3,480,464	2,992,996	(487,468)		
15	2030/31	83,531,135	3,341,245	2,992,996	(348,250)		
16	2031/32	80,189,890	3,207,596	2,992,996	(214,600)		
17	2032/33	76,982,294	3,079,292	2,992,996	(86,296)	(23,144,324)	(21,070,637)
18	2033/34	73,903,003	2,956,120	2,992,996	36,875		
19	2034/35	70,946,883	2,837,875	2,992,996	155,120		
20	2035/36	68,109,007	2,724,360	2,992,996	268,635		
21	2036/37	65,384,647	2,615,386	2,992,996	377,610		
22	2037/38	62,769,261	2,510,770	2,992,996	482,225		
23	2038/39	60,258,491	2,410,340	2,992,996	582,656		
24	2039/40	57,848,151	2,313,926	2,992,996	679,069		
25	2040/41	55,534,225	2,221,369	2,992,996	771,627		
26	2041/42	53,312,856	2,132,514	2,992,996	860,481		
27	2042/43	51,180,342	2,047,214	2,992,996	945,782		
28	2043/44	49,133,128	1,965,325	2,992,996	1,027,670		
29	2044/45	47,167,803	1,886,712	2,992,996	1,106,283		
30	2045/46	45,281,091	1,811,244	2,992,996	1,181,752		
31	2046/47	43,469,847	1,738,794	2,992,996	1,254,202		
32	2047/48	41,731,053	1,669,242	2,992,996	1,323,753		
33	2048/49	40,061,811	1,602,472	2,992,996	1,390,523		
34	2049/50	38,459,339	1,538,374	2,992,996	1,454,622		
35	2050/51	36,920,965	1,476,839	2,992,996	1,516,157		
36	2051/52	35,444,127	1,417,765	2,992,996	1,575,230		
37	2052/53	34,026,362	1,361,054	2,992,996	1,631,941		
38	2053/54	32,665,307	1,306,612	2,992,996	1,686,383		
39	2054/55	31,358,695	1,254,348	2,992,996	1,738,648		
40	2055/56	30,104,347	1,204,174	2,992,996	1,788,822		
41	2056/57	28,900,173	1,156,007	2,992,996	1,836,989		
42	2057/58	27,744,166	1,109,767	2,992,996	1,883,229		
43	2058/59	26,634,400	1,065,376	2,992,996	1,927,620		
44	2059/60	25,569,024	1,022,761	2,992,996	1,970,235		
45	2060/61	24,546,263	981,851	2,992,996	2,011,145		
46	2061/62	23,564,412	942,576	2,992,996	2,050,419		
47	2062/63	22,621,836	904,873	2,992,996	2,088,122		
48	2063/64	21,716,962	868,678	2,992,996	2,124,317		
49	2064/65	20,848,284	833,931	2,992,996	2,159,064		
50	2065/66	20,014,352	800,574	2,992,996	2,192,421	44,079,628	21,265,301

51	2066/67	19,213,778	768,551	-	(768,551)		
52	2067/68	18,445,227	737,809	-	(737,809)		
53	2068/69	17,707,418	708,297	-	(708,297)		
54	2069/70	16,999,121	679,965	-	(679,965)		
55	2070/71	16,319,156	652,766	-	(652,766)		
56	2071/72	15,666,390	626,656	-	(626,656)		
57	2072/73	15,039,735	601,589	-	(601,589)		
58	2073/74	14,438,145	577,526	-	(577,526)		
59	2074/75	13,860,619	554,425	-	(554,425)		
60	2075/76	13,306,195	532,248	-	(532,248)		
61	2076/77	12,773,947	510,958	-	(510,958)		
62	2077/78	12,262,989	490,520	-	(490,520)		
63	2078/79	11,772,469	470,899	-	(470,899)		
64	2079/80	11,301,571	452,063	-	(452,063)		
65	2080/81	10,849,508	433,980	-	(433,980)		
66	2081/82	10,415,528	416,621	-	(416,621)		
67	2082/83	9,998,906	399,956	-	(399,956)		
68	2083/84	9,598,950	383,958	-	(383,958)		
69	2084/85	9,214,992	368,600	-	(368,600)		
70	2085/86	8,846,392	353,856	-	(353,856)		
71	2086/87	8,492,537	339,701	-	(339,701)		
72	2087/88	8,152,835	326,113	-	(326,113)		
73	2088/89	7,826,722	313,069	-	(313,069)		
74	2089/90	7,513,653	300,546	-	(300,546)		
75	2090/91	7,213,107	288,524	-	(288,524)		
76	2091/92	6,924,583	276,983	-	(276,983)		
77	2092/93	6,647,599	265,904	-	(265,904)		
78	2093/94	6,381,695	255,268	-	(255,268)		
79	2094/95	6,126,428	245,057	-	(245,057)		
80	2095/96	5,881,370	235,255	-	(235,255)		
81	2096/97	5,646,116	225,845	-	(225,845)		
82	2097/98	5,420,271	216,811	-	(216,811)		
83	2098/99	5,203,460	208,138	-	(208,138)		
84	2099/00	4,995,322	199,813	-	(199,813)		
85	2100/01	4,795,509	191,820	-	(191,820)		
86	2101/02	4,603,689	184,148	-	(184,148)		
87	2102/03	4,419,541	176,782	-	(176,782)		
88	2103/04	4,242,759	169,710	-	(169,710)		
89	2104/05	4,073,049	162,922	-	(162,922)		
90	2105/06	3,910,127	156,405	-	(156,405)		
91	2106/07	3,753,722	150,149	-	(150,149)		
92	2107/08	3,603,573	144,143	-	(144,143)		
93	2108/09	3,459,430	138,377	-	(138,377)		
94	2109/10	3,321,053	132,842	-	(132,842)		
95	2110/11	3,188,211	127,528	-	(127,528)		
96	2111/12	3,060,682	122,427	-	(122,427)		
97	2112/13	2,938,255	117,530	-	(117,530)		
98	2113/14	2,820,725	112,829	-	(112,829)		
99	2114/15	2,707,896	108,316	-	(108,316)		
100	2115/16	2,599,580	103,983	-	(103,983)	(16,718,181)	(4,619,906)
	CFR O/S	2,495,597			(2,495,597)	(2,495,597)	(351,364)
	Adj A	1,721,525			(1,721,525)	(1,721,525)	(242,380)
					(0)	(0)	**(5,018,986)**