

**FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:**           **CABINET**

**DATE:**                   **TUESDAY, 18 FEBRUARY 2014**

**REPORT BY:**           **HEAD OF FINANCE**

**SUBJECT:**               **MINIMUM REVENUE PROVISION 2014/15**

**1.00   PURPOSE OF REPORT**

1.01   To present proposals for the setting of a prudent minimum revenue provision for the repayment of debt in 2014/15, as required under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 ('the 2008 Regulations').

**2.00   BACKGROUND**

2.01   Local Authorities are required each year to set aside some of their revenue reserves as provision for the repayment of debt i.e. a provision in respect of capital expenditure financed from borrowing or credit arrangements.

2.02   Regulation 22 of the 2008 Regulations requires an authority to each year make an amount of Minimum Revenue Provision (MRP) which it considers to be 'prudent', but the regulation does not itself define 'prudent provision'. However, the Welsh Government (WG) has provided guidance which makes recommendations to authorities on the interpretation of the term; the guidance was last updated in April 2010.

2.03   Authorities are required to prepare an annual statement of their policy on making MRP, which mirrors the existing requirements on the prudential borrowing limit and investment policy.

**3.00   CONSIDERATIONS**

**Meaning of 'Prudent Provision'**

3.01   The WG guidance provides for a number of options for making 'prudent provision'. It explains that provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

## **Options for Prudent Provision**

### 3.02 Option 1 – Regulatory Method.

For debt which is supported by 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), since the RSG is calculated on that basis, i.e. authorities are able to calculate MRP exactly as if the 2003 Regulations were still in force.

### 3.03 Option 2 – Capital Financing Requirement Method

This is a technically simpler alternative to option 1 and may also be used in relation to supported debt. While still based on the concept of the Capital Financing Requirement (CFR), which is easily derived from the balance sheet, it avoids the complexities of the formula in Regulation 22. However, for most authorities it will probably result in a higher level of provision (and subsequent impact on service budgets) than Option 1, as it would for Flintshire County Council.

### 3.04 Option 3 – Asset Life Method

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed, there are two options. Option 3 is to make provision in equal instalments over the estimated life of the asset for which borrowing is undertaken. This is a possibly simpler alternative to the use of depreciation accounting (Option 4), though it has some similarities to that approach.

### 3.05 Option 4 – Depreciation Method

Alternatively, for new borrowing under the Prudential system for which no WG support is being given, Option 4 may be used. This means making MRP in accordance with the standard rules for depreciation accounting.

## **Conditions for using the options**

- 3.06 The intention is that Options 1 and 2 should be used only for WG supported borrowing. Options 3 and 4 should be used in relation to all capital expenditure which is to be financed by unsupported borrowing or credit arrangements.

#### **4.00 RECOMMENDATIONS**

4.01 That members approve and recommend to the County Council on 18<sup>th</sup> February 2014:-

- Option 1 (Regulatory Method) be used for the calculation of the minimum revenue provision in 2014/15 for all supported borrowing; this represents a continuation of the approved and adopted policy for 2013/14.
- Option 3 (Asset Life Method) be used for the calculation of the minimum revenue provision in 2014/15 for all unsupported (prudential) borrowing; this represents a continuation of the approved and adopted policy for 2013/14.

#### **5.00 FINANCIAL IMPLICATIONS**

5.01 The 2014/15 Council Fund revenue budget provides for the minimum revenue provision in respect of all supported borrowing, on the basis of Option 1 – Regulatory Method calculation.

5.02 Any planned use of unsupported (prudential) borrowing, will need to take account of the revenue consequences of the Option 3 – Asset Life Method calculation, as part of the overall options appraisal and budget setting processes.

#### **6.00 ANTI POVERTY IMPACT**

6.01 None directly as a result of this report.

#### **7.00 ENVIRONMENTAL IMPACT**

7.01 None directly as a result of this report.

#### **8.00 EQUALITIES IMPACT**

8.01 None directly as a result of this report.

#### **9.00 PERSONNEL IMPLICATIONS**

9.01 None directly as a result of this report.

#### **10.00 CONSULTATION REQUIRED**

10.01 None.

#### **11.00 CONSULTATION UNDERTAKEN**

11.01 None.

**12.00 APPENDICES**

12.01 None.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985**  
**BACKGROUND DOCUMENTS**

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