

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY 17TH FEBRUARY 2015**

REPORT BY: **CORPORATE FINANCE MANAGER**

SUBJECT: **MINIMUM REVENUE PROVISION - 2015/16 POLICY**

1.00 **PURPOSE OF REPORT**

1.01 To present proposals for the setting of a prudent Minimum Revenue Provision (MRP) for the repayment of debt in 2015/16, 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 resources as provision for the repayment of debt i.e. a provision in respect of capital expenditure funded 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**

3.01 **Meaning of 'Prudent Provision'**

3.01.1 The WG guidance provides for a number of options for making 'prudent provision'. It explains that provision for the debt which funded 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.

3.02 Options for Prudent Provision

Option 1 – Regulatory Method

- 3.02.1 For capital expenditure funded from borrowing 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.

Formula for calculation is to multiply the adjusted Capital Financing Requirement at the end of the preceding financial year less adjustment A by 4%.

(Adjustment A is a fixed value determined by changes to statutory regulations referred to above).

- 3.02.2 Option 2 – Capital Financing Requirement Method

This is a technically simpler alternative to option 1 and may also be used in relation to supported borrowing. 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.

Formula for calculation is to multiply the adjusted Capital Financing Requirement at the end of the preceding financial year by 4%.

- 3.02.3 Option 3 – Asset Life Method

For capital expenditure funded from debt 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 debt is undertaken. This is a possibly simpler alternative to the use of depreciation accounting (Option 4), though it has some similarities to that approach.

- 3.02.4 Option 4 – Depreciation Method

Alternatively, for debt 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.

3.03 Conditions for using the options

3.03.1 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.

3.04 Practical Considerations

3.04.1 The useful life of an asset will vary depending on the class of asset concerned; a vehicle or ICT equipment may be financed over 5 years whereas a new school over 50 years. Judgements about the useful life will need to be made on an individual basis as expenditure is incurred.

3.04.2 Large capital projects may take a number of years to complete, for example the 21st Century Schools building programme. In this instance the MRP is incurred in the year after the asset has become operational, rather than during the construction phase.

3.05 Housing Revenue Account (HRA) – Introduction of Self Financing

3.05.1 Currently the MRP for the repayment of debt within the Housing Revenue Account (HRA) is governed by the 'Item 8 Determination' set by Welsh Ministers. It is calculated by multiplying the adjusted HRA Capital Financing Requirement at the end of the preceding financial year by 2%.

3.05.2 As a result of the planned voluntary exit from the HRA negative subsidy system in Wales on 31st March 2015, and the introduction of self financing, the Item 8 Determination governing the HRA's MRP has changed.

3.05.3 From 1st April 2015 the calculation of the HRA MRP will be similar to the Council Fund as set out in section 3.02 with the following modifications:

- Options 1 and 2 - the percentage applied is 4% for the Council Fund and 2% for the HRA.
- Options 1 and 2 can be used in relation to capital expenditure incurred before 1st April 2021. After 1st April 2021 only options 3 and 4 maybe used.

4.00 RECOMMENDATIONS

4.01 That members approve and recommend to the County Council on 17 February 2015 for Council Fund:-

- Option 1 (Regulatory Method) be used for the calculation of the MRP in 2015/16 for all capital expenditure funded from supported borrowing; this represents a continuation of the approved and adopted policy for 2014/15.
- Option 3 (Asset Life Method) be used for the calculation of the MRP in 2015/16 for all capital expenditure funded from unsupported (prudential) borrowing; this represents a continuation of the approved and adopted policy for 2014/15.

4.02 That members approve and recommend to the County Council on 17 February 2015 for the HRA:-

- Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2015/16 for all HRA capital expenditure funded by debt. This represents a continuation of how the calculation has been carried out in 2014/15, all though the governing regulations have changed for 2015/16.

5.00 FINANCIAL IMPLICATIONS

5.01 The 2015/16 revenue budgets provide for the MRP 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, on the basis of Option 3 – Asset Life Method calculation.
- HRA capital expenditure funded by borrowing, on the basis of Option 2 – Capital Financing Requirement Method calculation.

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**

Background Papers: Various Welsh Government papers

Contact Officer: Liz Thomas
Finance Manager - Technical Accountancy

Telephone: 01352 702289

E.mail: liz.thomas@flintshire.gov.uk