CABINET

Date of Meeting	Tuesday 16 February 2016
Report Subject	Minimum Revenue Provision - 2016/17 Policy
Cabinet Member	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, under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 ('the 2008 Regulations'), 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 each year make an amount of Minimum Revenue Provision (MRP) which it considers to be 'prudent', though the regulation itself does not define 'prudent provision'.

Welsh Government (WG) has provided guidance which makes recommendations to authorities on the interpretation of the term, this guidance was last updated in April 2010.

Authorities are required to prepare an annual statement of their policy on making MRP.

RECOMMENDATIONS	
1	That members approve and recommend to the County Council on 16 February 2016 for Council Fund (CF):- • Option 1 (Regulatory Method) be used for the calculation of the MRP in 2016/17 for all capital expenditure funded from supported borrowing; this represents a continuation of the approved and adopted policy for 2015/16. • Option 3 (Asset Life Method) be used for the calculation of the MRP

	in 2016/17 for all capital expenditure funded from unsupported (prudential) borrowing or credit arrangements; this represents a continuation of the approved and adopted policy for 2015/16.
2	That members approve and recommend to the County Council on 16 February 2016 for Housing Revenue Account (HRA):- • Option 2 (Capital Financing Requirement Method) be used for the calculation of the HRA's MRP in 2016/17 for all capital expenditure funded by debt; this represents a continuation of the approved and adopted policy for 2015/16.

REPORT DETAILS

1.00	**EXPLAINING THE MINIMUM REVENUE PROVISION**
1.01 1.01.1	**Meaning of 'Prudent Provision'** 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.
1.02 1.02.1	**Options for Prudent Provision** Option 1 - Regulatory Method 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 (CFR) 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.
1.02.2	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 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 CFR at the end of the preceding financial year by 4%.
1.02.3	Option 3 - Asset Life Method

	For capital expenditure funded from debt under the Prudential system for which no WG support is being given and is therefore self-financed, there are 2 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.
1.02.4	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.
1.03 1.03.1	**Conditions for using the options** 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.
1.04 1.04.1 1.04.2	**Practical Considerations** 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. 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.
1.05 1.05.1	**Housing Revenue Account** 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. • 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.

2.00	**RESOURCE IMPLICATIONS**
2.01	The 2016/17 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 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.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	No consultation is required or carried out.

4.00	RISK MANAGEMENT
4.01	There are no risks associated with this report.

5.00	APPENDICES
5.01	None.

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.