

Committee: **Corporate Overview Scrutiny Committee**
 Date of meeting: **16th July 2021**
 Report Subject: **Minimum Revenue Provision (MRP) Policy Revision**
 Portfolio Holder: **Leader, Corporate Services**
 Report Submitted by: **Rhian Hayden, Chief Officer Resources**

| Reporting Pathway | | | | | | | | |
|-----------------------------|---------------------------|--------------------------|-----------------|-------------------------------|--------------------|---------------------|---------|----------------------|
| Directorate Management Team | Corporate Leadership Team | Portfolio Holder / Chair | Audit Committee | Democratic Services Committee | Scrutiny Committee | Executive Committee | Council | Other (please state) |
| | | | | | 16.7.21 | | 29.7.21 | |

1. Purpose of the Report

1.1 To consider a proposed change to the Authority's Minimum Revenue Provision (MRP) policy and the impact this will have on the minimum revenue provision going forward.

2. Scope and Background

2.1 During February / March 2021, the Council engaged Treasury Advisors, Link Asset Services, to conduct a review of the current MRP policy.

2.2 The review identified the opportunity to change two elements of the current policy which would provide positive benefits to the Council by reducing the annual MRP charge until 2031/32 for unsupported borrowing and 2057/58 for supported borrowing.

2.3 This report, supported by the Link review, will provide a reasoned justification supporting the case to change:-

- the supported borrowing element of the MRP from 2% straight line to a 50-year annuity basis. and
- changing the unsupported borrowing element of the MRP from an annuity basis to a weighted average annuity basis.

2.4 Under regulation 21 of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, local authorities are required to charge Minimum Revenue Provision (MRP) to their revenue account for each financial year to provide for the repayment of debt resulting from capital expenditure. The Council is required to determine a level of MRP it considers to be **prudent**, whilst having regard to MRP Guidance issued by WG, which states "The broad aim of prudent provision is to ensure that the cost of debt is charged to a revenue account over a period that is commensurate with that over which the capital expenditure provides benefits or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the period implicit in the determination of that grant".

- 2.5 The legislation does not define what constitutes a “prudent provision”, however the MRP guidance (attached at Appendix 1) issued by the Secretary of State (WG) interprets the term and provides some ready-made examples of acceptable methods for calculating a prudent level of MRP.
Overall, the original statutory intent is that it is for an authority to itself determine what represents a prudent annual amount of MRP

3. **Options for Recommendation**

3.1 Option 1

Members to scrutinise the proposals and recommend to Executive/Council not support the change of the supported borrowing element of the MRP from 2% straight line to a 50-year annuity basis and to changing the unsupported borrowing element of the MRP from an individual asset annuity basis to a weighted average annuity basis.

3.2 Option 2 (preferred option)

Members to scrutinise the proposals and recommend Executive / Council to support the change of the supported borrowing element of the MRP from 2% straight line to a 50-year annuity basis and to changing the unsupported borrowing element of the MRP from an individual asset annuity basis to a weighted average annuity basis. This change is to be applied from 1st April 2021.

The calculation of the MRP proposed in Option 2 is in line with the examples provided in WG guidance on MRP.

4. **Evidence of how does this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan**

- 4.1 The report is written under legislation the Local Government Act 2003 Welsh Government guidance and CIPFA codes of practice.
- 4.2 This report also supports the Corporate Plan proposed outcome statement 2020/2022 “An ambitious and innovative Council delivering the quality services we no matter to our communities”.
- 4.3 The proposal has also been identified as part of the Bridging the Gap programme with the aim of supporting the Council’s financial resilience.

5. **Implications Against Each Option**

Impact on Budget (short and long term impact)

- 5.1.1 The following table illustrates the impact on the MRP charge the methodology will have:

| Financial Year | MRP based on the Current Policy | MRP based on the Proposed Policy (revised Methodology) | Change in the MRP charge | Impact on the MTFS (Original method) Increase / decrease | Impact on the MTFS (New method) |
|----------------|---------------------------------|--|--------------------------|--|---------------------------------|
| | £ | £ | £ | £ | £ |
| 2021/22 | 1,026,573 | 1,025,961 | -612 | 0 | |
| 2022/23 | 4,470,516 | 1,744,449 | -2,726,066 | 3,443,943 | 718,489 |
| 2023/24 | 4,301,872 | 1,837,629 | -2,464,242 | -168,644 | 93,180 |
| 2024/25 | 4,335,574 | 1,933,697 | -2,401,876 | 33,702 | 96,068 |
| 2025/26 | 4,370,510 | 2,032,745 | -2,337,765 | 34,937 | 99,047 |
| 2026/27 | 4,385,674 | 2,720,657 | -1,665,016 | 15,164 | 687,912 |
| 2027/28 | 4,413,668 | 2,826,975 | -1,586,693 | 27,994 | 106,317 |
| 2028/29 | 4,437,023 | 2,898,430 | -1,538,593 | 23,355 | 71,456 |
| 2029/30 | 4,474,208 | 2,972,243 | -1,501,965 | 37,185 | 73,813 |
| 2030/31 | 4,471,907 | 3,048,494 | -1,423,413 | -2,301 | 76,250 |
| 2031/32 | 4,039,439 | 2,712,834 | -1,326,605 | -432,468 | -335,660 |
| 2032/33 | 4,076,695 | 2,794,209 | -1,282,487 | 37,257 | 81,375 |
| 2033/34 | 4,029,319 | 2,878,277 | -1,151,042 | -47,377 | 84,068 |

- 5.1.2 The above table illustrates that if agreed, the revised policy would reduce the expected MRP charge from 2022/23 onwards. Under the current policy the MRP charge for 2022/23 is forecast to be £4.47m this will reduce to £1.74m under the proposed policy and will increase incrementally in the following years as shown above.
- 5.1.3 The 2022/23 the MRP charge of £1.74m is higher than the current charge of £1.03m (by £718k) but lower than the current forecast increase of £3.4m.
- 5.1.4 Based on the current MTFS assumptions, the proposed change in policy would have a positive impact of in excess of £750,000. The MRP charge is estimated to increase in subsequent years but this charge will be lower than current estimates and will mitigate some of the cost pressure previously identified and reduce the currently assessed budget gaps.
- 5.1.5 It is important to note that the changes are prospective and do not amend any previous year calculations. The figures incorporate the re-profiling of the remaining £3.2m retrospective adjustment balance from the previous MRP Policy review in 2017/18. over the period 2021/22 to 2025/26. In 2026/27 at the point where the full retrospective amount has applied the MRP is expected to increase by £600,000.

For the purpose of this report the Authority's future capital expenditure estimates have not been included in the analysis and all options are based on the CFR position as at 31 March 2021.

5.2 Risks including Mitigation

- 5.2.1 Audit Wales monitor the minimum revenue provision as part of their annual audit of the statement of accounts, we are not expecting AW to challenge the

proposals. However, the Authority's Treasury advisors will be available to assist in any queries the auditors may have.

- 5.2.2 The impact of a revised MRP policy would need to be kept under regular review in order to ensure that the annual provision is prudent. The MRP policy will be reviewed in line with the annual budget setting process. As the MRP policy is scrutinised by Corporate Overview Committee and approved by Council each year there will be an opportunity to monitor this and change the policy if required.

5.3 *Legal*

- 5.3.1 The report is written under legislation (the Local Government Act 2003), Welsh Government guidance and CIPFA codes of practice.

5.4 *Human Resources*

- 5.4.1 There are no direct staffing implications to report.

6. **Supporting Evidence**

6.1 Performance Information and Data

6.1.1 ***Current Policy***

The Council's current policy for:-

- 6.1.2 ***Supported Borrowing*** (i.e. borrowing that receives central government support through the RSG) - The Council currently makes MRP for supported borrowing and borrowing pre 1st April 2008 on a straight-line basis at 2% (i.e. over 50 years).

- 6.1.3 ***Unsupported borrowing*** (i.e. prudential borrowing) is based on Option 3 of the statutory guidance that allows for MRP provision using the asset life methodology on an annuity basis. It is applied to particular items of capital expenditure for example Highways prudential borrowing, IT Infrastructure and 21st Century Schools projects and spreads the expenditure over the useful life of the asset. MRP is chargeable in the first financial year after the relevant asset becomes operational. The interest rate to be used in the annuity calculation is the average PWLB annuity rate for a loan with a term equivalent to the estimated life of the asset.

6.1.4 ***Proposed Changes***

6.1.5 ***Supported Borrowing***

The Authority currently makes MRP for supported borrowing and borrowing pre 1st April 2008 on a straight-line basis at 2% (i.e. over 50 years). It could choose instead to make MRP for this element of its Capital Financing Requirement (CFR) on an annuity basis.

CIPFA puts forward the following reasoning for using the annuity method in CIPFA's 'The Practitioner's Guide to Capital Finance in Local Government' (2019) which states: 'The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now. The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due. The annuity method would then be a prudent basis for providing for assets that provide a steady flow of benefits over their useful life.'

Unsupported Borrowing

- 6.1.6 The Authority currently uses the asset life annuity basis methodology for MRP on unsupported borrowing, which is in line with option 3 in the MRP Guidance. An asset life is determined for each item of capital expenditure financed by unsupported borrowing and a calculation of MRP is carried out for each individual item.

A prudent option needs to ensure that the MRP repayment period is reasonably commensurate with the period over which the capital expenditure provides benefits. An alternative simplified method has therefore been developed that uses an average asset life for all unsupported borrowing in each year and applies the annuity calculation to the total unsupported borrowing capital expenditure for that year, rather than to individual project.

6.1.7 Prudential Indicators

The MRP is a statutory requirement for local authorities to charge to their revenue account for each financial year a prudent amount for the principal cost of their debt in that financial year. It impacts upon the Councils prudential indicators that are set at the start of the financial year. Prudential Indicators however are not intended to be a measure of the Council's performance against other local authorities; they should instead be used as indicators of affordability of the Council's capital spending plans.

- 6.1.8 Amending the MRP as proposed will cause an increase in our CFR compared to current projections reflected within our prudential indicators. This is because the MRP reduces the CFR each year, so a decrease in the amount of reduction causes an increase in the current projected CFR. It is important to recognise however that this will not affect our actual debt repayments or actual debt outstanding which will remain unchanged. MRP is the statutory amount required to be charged to the revenue account each year to represent debt repayment and the CFR is a measure of indebtedness rather than actual debt.

- 6.1.5 The decrease in MRP will not adversely impact upon the Council's ability to repay its future debt obligations

6.2 Expected outcome for the public

- 6.2.1 The Council's Treasury Management activities support delivery of services to the public. Revising the MRP policy will mitigate the large rise in the MRP costs from 2022/23.

6.3 *Involvement (consultation, engagement, participation)*

6.3.1 Members of the Corporate Overview Scrutiny Committee and full Council are involved in developing and monitoring compliance with the Council's Treasury Management Strategy, the MRP Policy forms part of this.

6.4 *Thinking for the Long term (forward planning)*

Changing the MRP policy will still result in the debt being written off over the same period of time, however it will avoid large fluctuations in the charge which can impact significantly on the budget setting in those individual years.

This proposal also forms part of the Bridging the Gap programme which has been developed to support the Council's ongoing financial resilience.

6.5 *Preventative focus*

6.5.1 Revising the MRP policy will mitigate the large rise in the MRP costs impacting upon 2022/23 and future years.

6.6 *Collaboration / partnership working*

The report has been prepared in conjunction with the Authority's Treasury Management advisors, Link.

6.7 *Integration(across service areas)*

n/a

6.8 *EqIA(screening and identifying if full impact assessment is needed)*

n/a

7. Monitoring Arrangements

7.1 The MRP policy will be reviewed in line with the annual budget setting process

7.2 As the MRP policy is scrutinised by Corporate Overview Committee and approved by Council each year there will be an opportunity to revisit any decision at least annually, or make additional voluntary payments.

Background Documents

Appendix 1 – Guidance on minimum revenue provision