Appendix 1 - Revision to the Minimum Revenue Provision Policy for 2023/24

1. Key messages

Under legislation Local Authorities are required to charge to their revenue account for each financial year a Minimum Revenue Provision (MRP) to account for the cost of their debt in that financial year.
For the current 2023/24 financial year, Council on 9th March 2023 approved a MRP Policy whereby the annual provision for supported borrowing is based on the principle of asset useful economic lives using the equal instalment method.
The Welsh Government's updated guidance on MRP allows Local Authorities to further examine the concept of prudent provision.
The proposed revision to the MRP Policy is based on a more prudent charge to revenue by applying the Asset Life Annuity Method rather than the existing Asset Life Equal Instalment Method.
The change will ensure that current and future generations will consume equal benefits from the Council's capital assets, and also ensures consistency of policy with unsupported borrowing.
A consequence of the proposed more prudent MRP is a significant budgetary saving over the medium term equating to around £1m for each of 2023/24 and 2024/25.

2. Introduction

2.1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of this debt is known as Minimum Revenue Provision (MRP).

2.2. MRP is an annual charge to the revenue budget alongside the interest due on any debt outstanding.

3. Legislative framework and current policy

3.1. Under the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, as amended, Local Authorities are required to charge to their revenue account for each financial year a Minimum Revenue Provision (MRP) to account for the cost of their debt in that financial year resulting from borrowing to support capital expenditure.

3.2. For the financial year 2007/08 and subsequent financial years, under the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008, as amended, the detailed calculation has been replaced with a requirement that local authorities calculate an amount of MRP which they consider to be prudent. The broad aim of prudent provision is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits.

3.3. The four options proposed for determination of a prudent provision are indicated as follows:

Option 1	For capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31st March 2008.
Option 2	For General Fund capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined as 4% of the capital financing requirement in respect of that expenditure.
Option 3	For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment, starting in the year after the asset becomes operational.
Option 4	For capital expenditure incurred after 31st March 2008, MRP will be determined as being equal to the accounting charge for depreciation and impairment on those assets (or parts of) continuing until the expenditure has been fully funded.

3.4. The 2008 Regulations recommend that prior to the commencement of each financial year a local authority prepares a statement of its policy on making MRP (Annual MRP Statement) and submits it to full Council.

4. Previous amendment of MRP policy

4.1. Council on 1st December 2016 amended the MRP Policy for supported borrowing from Option 2 (a 4% reducing balance) to Option 3 based on a 2% (50 year) equal instalment approach. This looked to ensure prudently that the liability is actually repaid over the indicative life of Council's asset portfolio, and that 2% equated more closely with the indicative asset life.

4.2. It was noted that this had the added advantage of being more prudent that the existing reducing balance method, in that it does ultimately pay off the liability in accordance with the likely economic usage of assets.

4.3. The revised approach better reflected the usage of assets, and moved away from an approach where future generations would be expected to contribute to the repayment of historic Supported Borrowing liabilities long after the economic use of associated assets had expired.

4.4. The report noted that MRP policy would be periodically reviewed to ensure that that it remained prudent and appropriate to the Council's circumstasnces.

5. Proposed Revised Approach for Supported Borrowing

5.1. The Welsh Government updated its statutory guidance regarding MRP in 2018 providing advice on how local authorities may determine prudent charges for MRP. This guidance was issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003 [Revised 2018] and is effective from 1st April 2019. The four options for prudent provision remain as indicated above but with two alternative options under Option 3 as follows:

Option 3(a) – Equal Instalment Method
Option 3(b) – Annuity Method

5.2. For supported borrowing the Council is currently adopting Option 3(a) whereby MRP is based on 2% per annum, equivalent to equal instalments over an assumed 50 year life.

5.3. Council on the 9th March 2023 approved the following MRP policy for the current financial year 2023/24:

MRP Type	Option Applied	Calculation Method
Supported Borrowing funded Expenditure	Option 3	Asset life at 2% per annum, equivalent to equal instalments over a 50 year life
Unsupported Borrowing funded Expenditure	Option 3	Annuity basis within the asset life method, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money

5.4. Neither the guidance nor legislation defines what is prudent. It is therefore a decision for each council to manage this appropriately and to determine prudent repayment based on its own individual circumstance. This will involve taking account of medium/long term financial plans, current budgetary pressures, current and future capital expenditure plans, funding needs and any longer term transformational plans.

5.5. The current MRP policy when combined with the cost of interest on outstanding borrowing places a significant burden on the Council's revenue budget, and these charges are biased towards the early years of the asset rather than being spread more evenly across the whole life of the asset.

5.6. There is also inconsistency in approach between supported and unsupported borrowing which is an additional administrative burden for the financial management of MRP.

5.7. The Council has undertaken a review to determine whether this remains the most appropriate method and whether adoption of 3(b) - the Annuity Method for supported borrowing would result in a more prudent provision than the current Equal Instalment Method.

5.8. In forming an opinion the Council has given regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) publication *"Practitioners' Guide to Capital Finance in Local Government"* which states the following:

"*it is arguably the case that 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 provided steady flow of benefits over their useful life."*

5.9. It is therefore considered that the equalisation of MRP under an annuity-based calculation will have the effect of ensuring that current and future generations will consume equal benefits from the Council's capital assets.

5.10. The proposals above demonstrate that the policy is consistent, affordable over the longer term and ensures a more equitable spread of debt repayment costs across all generations of taxpayer.

5.11. The change also ensures alignment of policy between supported and unsupported borrowing and removes a level of administrative burden and complexity for finance team in the management of MRP.

5.12. Audit Wales have been consulted and has no objection to the proposed revision to the MRP Policy.

5.13. The Council will continue to periodically review its MRP policy to ensure that it consistently follows the above principles in the future and remains appropriate the Council's circumstances.

5.14. Council are therefore asked to approve a change in MRP policy to the following methods:

Type of Expenditure	Option Applied	MRP Calculation
Supported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset. The MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money.
Unsupported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset. The MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money.

6. Financial Implications

6.1. The revised MRP calculation will be based on charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.

6.2. A consequence of this more prudent provision is significant MRP savings over the medium term:

Financial Year	Estimated Current MRP £'000	Revised MRP £'000	Difference £'000
2023/24	1,812	805	-1,007
2024/25	1,861	861	-1,000
2025/26	1,861	891	-970
2026/27	1,861	922	-939
2027/28	1,861	954	-907

6.3. For completeness the detailed MRP calculations outlining the impact of the proposed revision to the MRP Policy over the full period of provision are shown in Schedule 1 below.

6.4. This demonstrates that the annual monetary savings continue to 31st March 2047 by applying the Annuity Method together with an increased annual cost thereafter albeit recognising the time value of money. Crucially, the overall amount of provision remains the same, and ensures that full provision is made over time to match the debt needing to be repaid.

7. Future Generations Considerations

7.1. Whilst the adoption of the revision to the MRP Policy will have a favourable effect on the Council's revenue budget for 2023/24 and the Medium Term Financial Plan, it needs to be stressed that these cash flow adjustments should not be considered as savings. The change merely revises the profiles of the same overall charge towards the latter half of repayment schedule. The revised approach better reflects the usage of assets, and ensures that current and future generations will consume equal benefits from local authority capital assets.

7.2. In addition, reducing provision in the shorter term means the Council is better placed to continue to keep services open now for the benefit of future generations rather than have to cut services now that may never get reinstated.

Schedule 1

Financial Year	Current method	Revised method	Difference
2023/24	1,812,449	805,205	-1,007,244
2024/25	1,861,069	861,449	-999,620
2025/26	1,861,069	891,198	-969,871
2026/27	1,861,069	922,001	-939,068
2027/28	1,861,069	953,896	-907,173
2028/29	1,861,069	986,922	-874,146
2029/30	1,861,069	1,021,120	-839,948
2030/31	1,861,069	1,056,533	-804,536
2031/32	1,861,069	1,093,204	-767,865
2032/33	1,861,069	1,131,178	-729,891
2033/34	1,861,069	1,170,503	-690,566
2034/35	1,861,069	1,211,228	-649,841
2035/36	1,861,069	1,253,403	-607,666
2036/37	1,861,069	1,297,080	-563,988

2037/38	1,861,069	1,342,315	-518,753
2038/39	1,861,069	1,389,164	-471,905
2039/40	1,861,069	1,437,684	-423,385
2040/41	1,861,069	1,487,937	-373,132
2041/42	1,861,069	1,539,985	-321,084
2042/43	1,861,069	1,593,894	-267,175
2043/44	1,861,069	1,649,731	-211,338
2044/45	1,861,069	1,707,566	-153,503
2045/46	1,861,069	1,767,471	-93,598
2046/47	1,861,069	1,829,522	-31,547
2047/48	1,861,069	1,893,797	32,728
2048/49	1,861,069	1,960,376	99,308
2049/50	1,861,069	2,029,344	168,275
2050/51	1,861,069	2,100,787	239,718
2051/52	1,861,069	2,174,795	313,726
2052/53	1,861,069	2,251,462	390,393
2053/54	1,861,069	2,330,884	469,815
2054/55	1,861,069	2,413,162	552,093
2055/56	1,861,069	2,498,400	637,331
2056/57	1,861,069	2,586,705	725,637
2057/58	1,861,069	2,678,190	817,121
2058/59	1,861,069	2,772,971	911,902
2059/60	1,861,069	2,871,166	1,010,098
2060/61	1,861,069	2,972,903	1,111,834
2061/62	1,861,069	3,078,308	1,217,239
2062/63	1,861,069	3,187,517	1,326,448
2063/64	1,861,069	3,300,668	1,439,600
2064/65	1,861,069	3,417,906	1,556,837
2065/66	1,861,069	3,539,379	1,678,310
2066/67	1,861,069	603,996	-1,257,073
2067/68	338,500	527,160	188,660
2068/69	290,460	456,195	165,735
2069/70	242,260	382,701	140,441
2070/71	194,200	307,161	112,961
2071/72	145,860	229,684	83,824
2072/73	97,240	152,634	55,394
2073/74	48,620	77,104	28,484
Total	**83,195,544**	**83,195,544**	**0**