

Meeting of:	<b>Governance and Audit Committee</b>
Date of Meeting:	<b>Monday, 21 October 2024</b>
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Proposal to Amend the Minimum Revenue Provision 2024/25 Policy
Purpose of Report:	To present to those charged with governance details of the proposed changes to the Minimum Revenue Provision Policy for 2024/25
Report Owner:	Director of Corporate Resources
Responsible Officer:	Matt Bowmer, Head of Finance/s151 Officer
Elected Member and Officer Consultation:	The Head of Finance has liaised with Wales Audit Office and the Independent Treasury Management Advisors (Link)
Policy Framework:	This will be reflected in the Treasury Management and Investment Strategy which will require Full Council approval.
<p>Executive Summary:</p> <ul style="list-style-type: none"> <li>• Minimum Revenue Provision (MRP) is the method that Local Authorities use to charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by debt. Before 2007/08, the method of calculating MRP was specified in legislation, from 2007/08 onwards local authorities have been free to set their own policy on calculating MRP.</li> <li>• For supported capital expenditure the Council operates the "Asset Life" Method when calculating MRP. MRP is determined by charging the expenditure over the expected useful life of the average asset lives (40 years) of the (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.</li> <li>• Following some recent benchmarking across other Welsh Local Authorities, the Council has identified a number of Authorities that use an asset life of 50 years rather than 40 years which would potentially release further savings to the revenue budget whilst still maintaining prudent provision.</li> <li>• Taking into account the guidance that the Council must adhere to, the team has carried out a piece of work looking at the average asset lives funded from supported borrowing for the previous eight financial years where those assets have been funded through supported borrowing and due in part to significant contributions towards Sustainable Communities for Learning Schemes in recent years which typically have an asset life of 65 years. Following this analysis the average asset life over this period is 50.70 years.</li> </ul>	

- Therefore, the Council still proposes to use the "Asset Life" Method when calculating MRP, however it is proposed to amend the average asset life from 40 to 50 years. This change would result in a revenue saving of £615k.
- MRP is intrinsically linked to the concept of the Capital Financing Requirement in the Prudential Code. The CFR represents the total of all the Council's past capital expenditure, less the total capital financing applied other than debt. Debt is only a temporary form of finance as loans must be repaid. The CFR therefore represents the Council's underlying need to borrow for capital purposes, and the amount that has yet to be permanently financed. MRP is the main method of permanently financing that expenditure. If approved the revised CFR projections are detailed below:

Year	1	2	3	4	5	10	20	30
	2024/25	2025/26	2026/27	2027/28	2028/29	2033/34	2043/44	2053/54
CFR	£000	£000	£000	£000	£000	£000	£000	£000
Current	235,061	269,484	298,573	322,579	352,207	457,146	691,165	856,175
Revised	235,676	270,731	300,469	325,142	355,454	464,245	707,262	882,793

- The application of an equal instalment method over the average asset life (50 years) to the Councils Supported Borrowing CFR is the Section 151 Officers preferred methodology for the Council as it is fully consistent with the statutory duty to make prudent revenue provision for the redemption of debt. Whilst this will lead to a higher CFR profile initially than the existing approach it ensures that the capital expenditure financed by borrowing is repaid within the expected asset life rather than extending beyond it.

## **Recommendations**

1. That Governance and Audit Committee approves the proposed amendment to the Minimum Revenue Provision Policy for 2024/25 for supported borrowing.

## **Reasons for Recommendations**

1. To ensure that the members of the Governance and Audit Committee, as those charged with governance, approve the proposed amendment to the Minimum Revenue Provision Policy which will be incorporated into the revised Treasury Management Strategy and 2024/25 Minimum Revenue Provision Policy to be presented to Cabinet in November and full Council in December 2024.

### **1. Background**

- 1.1 The Council is required by statute to set aside a Minimum Revenue Provision to repay debt.
- 1.2 MRP is the method that Local Authorities use to charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by debt. Before 2007/08, the method of calculating MRP was specified in legislation, from 2007/08 onwards local authorities have been free to set their own policy on calculating MRP.
- 1.3 The Guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003 [Revised 2018] requires the full Council to approve a MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The broad aim of the Welsh Government Guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefit.
- 1.4 The Council has capital expenditure funded by debt which can be categorised into three distinct groups:
  - Housing Revenue Account (HRA) Capital Financing Requirement (CFR)
  - General Fund Unsupported Capital Financing Requirement/Prudential Borrowing
  - General Fund Supported Capital Financing Requirement
- 1.5 These do not equate to external borrowing for the Council as a portion of the current Capital Financing Requirement is funded from Internal Borrowing. The current projections for the Capital Financing Requirement and Internal Borrowing are detailed in the tables below:

Table One - Capital Financing Requirement

Year	1	2	3	4	5	10	20	30
	2024/25	2025/26	2026/27	2027/28	2028/29	2033/34	2043/44	2053/54
CFR	£000	£000	£000	£000	£000	£000	£000	£000
Non HRA	126,047	138,974	143,302	145,721	146,385	138,895	119,290	94,031
HRA	109,014	130,510	155,271	176,858	205,822	318,251	571,875	762,144
<b>Total</b>	<b>235,061</b>	<b>269,484</b>	<b>298,573</b>	<b>322,579</b>	<b>352,207</b>	<b>457,146</b>	<b>691,165</b>	<b>856,175</b>

Table Two - Internal Borrowing Table

Year	1	2	3	4	5
	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000
Total CFR	235,061	269,484	298,573	322,579	352,207
Less External Borrowing	(195,211)	(233,000)	(269,323)	(293,343)	(331,542)
<b>Internal Borrowing</b>	<b>39,850</b>	<b>36,484</b>	<b>29,250</b>	<b>29,236</b>	<b>20,665</b>

- 1.6 The Council's current MRP Statement is set out in Appendix 1 with tracked changes regarding the proposed MRP Statement.

## 2. Key Issues for Consideration

### MRP Policy Review

- 2.1 The Council reviewed its MRP Policy 2018/19 with the initial report brought to Governance and Audit Committee in January 2018 and a Strategy reflecting the change in February 2018 which was approved by Council in March 2018.
- 2.2 This change was proposed at a time of increasing pressure on the revenue budget and several local authorities across the UK reviewed their MRP Policies to ensure there was a balance of prudent provision and not overprovision. This helped to realise savings in the revenue budget.
- 2.3 The proposal that was set out at that point was a change in Policy from a reducing balance method of calculating MRP to an asset life method, assuming an average asset life of 40 years. At the time there were some indications that a maximum cap would be set , however this has not been implemented.
- 2.4 Following some recent benchmarking across other Welsh Local Authorities, the Council has identified a number of Authorities that use an asset life of 50 years rather than 40 years which would potentially release further savings to the revenue budget whilst still maintaining prudent provision.

- 2.5** The Council is legally obliged to have regard to the guidance which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council make prudent provision to redeem its debt liability over a period which is reasonable commensurate with that over which the capital expenditure is estimated to provide.
- 2.6** Taking into account the guidance that the Council must adhere to, the team has carried out a piece of work looking at the average asset lives funded from supported borrowing for the previous eight financial years where those assets have been funded through supported borrowing and due in part to significant contributions towards Sustainable Communities for Learning Schemes in recent years which typically have an asset life of 65 years. Following this analysis the average asset life over this period is 50.70 years.

Table Three - Average Asset Life

<b>Year</b>	<b>Average Asset Life</b>
2016/17	65.00
2017/18	47.06
2018/19	43.27
2019/20	53.19
2020/21	51.90
2021/22	51.87
2022/23	50.19
2023/24	43.14
<b>Average</b>	<b>50.70</b>

- 2.7** The Council still proposes to use the "Asset Life" Method when calculating MRP, however it is proposed to amend the average asset life from 40 to 50 years. The proposed revised Minimum Revenue Provision Policy for 2024/25 for supported borrowing is detailed in Appendix 1 with tracked changes detailing the amendment.
- 2.8** This change would result in a revenue saving of £615k.

Table Four – MRP Charge Saving

<b>MRP Charge</b>	<b>£000</b>
MRP Charge (Supported Borrowing over current 40 years)	3,074
MRP Charge (Supported Borrowing over revised 50 years)	2,459
<b>Saving</b>	<b>615</b>

## Capital Financing Requirement

**2.9** MRP is intrinsically linked to the concept of the Capital Financing Requirement in the Prudential Code. The CFR represents the total of all the Council's past capital expenditure, less the total capital financing applied other than debt. Debt is only a temporary form of finance as loans must be repaid. The CFR therefore represents the Council's underlying need to borrow for capital purposes, and the amount that has yet to be permanently financed. MRP is the main method of permanently financing that expenditure. If approved the revised CFR and internal borrowing projections are detailed below:-

Table five - Revised Capital Financing Requirement

Year	1	2	3	4	5	10	20	30
	2024/25	2025/26	2026/27	2027/28	2028/29	2033/34	2043/44	2053/54
CFR	£000	£000	£000	£000	£000	£000	£000	£000
Non HRA	126,662	140,221	145,198	148,284	149,632	145,994	135,387	120,649
HRA	109,014	130,510	155,271	176,858	205,822	318,251	571,875	762,144
<b>Total</b>	<b>235,676</b>	<b>270,731</b>	<b>300,469</b>	<b>325,142</b>	<b>355,454</b>	<b>464,245</b>	<b>707,262</b>	<b>882,793</b>

Table six - Revised Internal Borrowing

Year	1	2	3	4	5
	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000
Total CFR	235,676	270,731	300,469	325,142	355,454
Less External Borrowing	(195,211)	(233,000)	(269,323)	(293,343)	(331,542)
<b>Internal Borrowing</b>	<b>40,465</b>	<b>37,731</b>	<b>31,146</b>	<b>31,799</b>	<b>23,912</b>

## Investment Income

**2.10** If the revenue savings generated by lower MRP are taken as reflected in the 2024/25 revenue budget, rather than being banked in reserves, then cash balances will fall by an equal sum. This will lead to reduced investment income. A £615k reduction in MRP at an average interest rate of 4.875% would equate to lost investment income of approximately £30k per annum.

## Impact and Opportunity for Review

**2.11** The impact of the revised policy will be kept under review and the MRP policy can be changed at any time by full Council decision. As the MRP policy has to be approved by Council each year there will be an opportunity to revisit any decision at least annually however consideration will need to be taken of the budget savings that are being made as a result of the change.

### 3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1 The general purpose of borrowing is to spread the cost of building our assets over a number of years, thereby making such expenditure affordable. By financing such expenditure by loan rather than from the revenue budget it has the effect of spreading these costs over the useful economic life of the asset, whilst it is used to deliver services to the council taxpayer. This spreading avoids front loading costs for service potential onto current taxpayers, where current taxpayers pay for creating assets that deliver services for many years in the future. The changed policy seeks to more equitably align the repayment of debt to the assessed lives of the Council's assets.

### 4. Climate Change and Nature Implications

- 4.1 The Council's 'Treasury Management Policy has a section detailing Environmental and Social Governance considerations as part of the Council's approach to Treasury Management.
- 4.2 Councils and the UK Government are implementing policies in response to Climate Change.

### 5. Resources and Legal Considerations

#### Financial

- 5.1 Money is borrowed for capital purposes and interest is charged to revenue accounts.
- 5.2 The application of an equal instalment method over the average asset life (50 years) to the Councils Supported Borrowing CFR is the Section 151 Officers preferred methodology for the Council as it is fully consistent with the statutory duty to make prudent revenue provision for the redemption of debt. Whilst this will lead to a higher CFR profile initially than the existing approach it ensures that the capital expenditure financed by borrowing is repaid within the expected asset life rather than extending beyond it.

Table seven - Capital Financing Requirement Comparison

Year	1	2	3	4	5	10	20	30
	2024/25	2025/26	2026/27	2027/28	2028/29	2033/34	2043/44	2053/54
CFR	£000	£000	£000	£000	£000	£000	£000	£000
Current	235,061	269,484	298,573	322,579	352,207	457,146	691,165	856,175
Revised	235,676	270,731	300,469	325,142	355,454	464,245	707,262	882,793

- 5.3 The Revenue Budget Proposals reported to Council on 28th February 2024 included a saving of £600k which is contingent on an amended MRP policy being

adopted for 2024/25 that utilises the equal instalment methodology for the calculation of MRP over a 50 year average life. This approach is projected to generate a saving of £615K against existing estimated MRP charges.

### **Employment**

- 5.4 There are no direct employment issues relating to this report.

### **Legal (Including Equalities)**

- 5.5 Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory.

## **6. Background Papers**

- 6.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 edition).
- 6.2 The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Notes (2021 Edition).
- 6.3 Welsh Government guidance on Local Authority investments



## The Council's Minimum Revenue Provision (MRP) Policy

- 1.1** The Council's current MRP Statement is set out below:
- 1.2** For supported capital expenditure the Council operates the "Asset Life" Method when calculating MRP. MRP is determined by charging the expenditure over the expected useful life of the average asset lives (~~5040~~ years) of the (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.
- 1.3** MRP is charged at 2% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets for debt incurred before 2021/22. From 2021/22 onwards Council again operates the "Asset Life" method and MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments (50 years), starting in the year after the asset becomes operational.
- 1.4** The Council operates the Asset Life Method for loans advanced for capital expenditure on Vehicles. The useful life will be linked to the projected life of the vehicle. The current vehicles within our loans pool are charged out over 7 years and again will be charged annually in equal instalments.
- 1.5** Loans advanced for City deal will be charged over 25 years in equal instalments also using the Asset Life Method.
- 1.6** Loans advanced for Affordable Housing, Band B Schools and the Highway Net Resurfacing Programme under LGFI schemes are the exception where MRP is calculated on an annuity basis.
- 1.7** Capital expenditure incurred during the current financial year will not be subject to a MRP charge until at the earliest the next financial year.
- 1.8** For the Pipeline schemes it has been assumed that MRP will not be charged until the schemes have completed.