

REPORT OF DIRECTOR OF CORPORATE SERVICES

County Council

26th April 2017

AMENDMENT TO TREASURY MANAGEMENT POLICY, STRATEGY AND MINIMUM REVENUE PROVISION POLICY

DESIGNATION:	DIRECTORATE	TELEPHONE NO.
C Moore, Director of Corporate Services	Resources	01267 224120
AUTHOR & DESIGNATION	DIRECTORATE	TELEPHONE NO
C Moore, Director of Corporate Services	Resources	01267 224120

1. INTRODUCTION

- 1.1 Under the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, 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. Regulation 21 set out the method Authorities were required to follow in calculating MRP.
- 1.2 Under the Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008, the detailed calculation has been replaced with a requirement that local authorities 'have regard' to the guidance and the recommendations within. In principle, an authority is now only required to make a 'prudent provision' in respect of its ongoing MRP charge. 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.
- 1.3 The options for prudent provision are as follows:
 - Regulatory Method – MRP is equal to the amount determined in accordance with the former 2003 Regulations as if it had not been revoked by the 2008 Regulations.(4% reducing balance)
 - Capital Financing Requirement (CFR) Method – MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year. That is, it is calculated on a 4% reducing balance method (Method currently used by Carmarthenshire CC)
 - Asset Life Method – where capital expenditure on an asset is financed wholly or partly by borrowing, MRP is to be made in equal annual instalments over the estimated economic life of the asset. Where capital expenditure is not incurred in the creation of an asset, MRP is to be made in equal annual instalments over a period reasonably reflecting the benefit arising from the expenditure.

- Depreciation Method – MRP is to be equal to the depreciation of that proportion of the asset on which expenditure has been financed by borrowing.

1.4 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. The following MRP Policy Statements were approved by Council of 23rd February 2016 for the 2016/17 financial year and by Council of 22nd February 2017 for the 2017/18 financial year:

- **Supported Borrowing and Capital Expenditure incurred before 1st April 2008**

The calculation is based on 4% of the opening Capital Financing Requirement (CFR) each year.

- **Unsupported Borrowing**

Asset Life Method: under this method the borrowing value is divided by the estimated life of the asset.

Capital Expenditure on the Modernising Education Programme (MEP) and Local Government Borrowing Initiative (LGBI) 21st Century Schools is classed as Unsupported Borrowing. It is estimated that asset lives within these programmes are 30 years and this is the period that will be used to determine the MRP.

Asset lives within the Fleet Programme range from 1 to 10 years, these are the periods that will be used to determine the MRP.

Local Government Borrowing Initiative (LGBI) Highways. It is estimated that asset lives within this programme are 20 years and this is the period that will be used to determine the MRP.

- **Housing Revenue Account**

The calculation is based on 2% of the opening Capital Financing Requirement (CFR) each year

2. WALES AUDIT OFFICE GUIDANCE

2.1. The Assistant Auditor General (AAG) for Wales in his letter to all Local Authorities in Wales, dated 7th January 2016, advised that where an amendment to current MRP policy is being considered, a Local Authority should take account of 'The Well-being of Future Generations (Wales) Act 2015' (the Act). This is because an amendment from the 4% reducing balance methodology to one based on asset lives will invariably result in a reduced MRP charge in the short-term but an increased MRP charge in the longer term.

- 2.2.** In complying with the Act a Local Authority must ensure that its decisions are sustainable, whereby “the needs of the present are met without compromising the ability of future generations to meet their own needs”, and recognise “the importance of balancing short term needs with the need to safeguard the ability to meet long term needs”.
- 2.3.** In addition the AAG advised that those Local Authorities wishing to amend their current MRP Policy should demonstrate that:
- The lower charge more accurately reflects the lives of assets employed by the authority; or
 - The lower charge is reasonably commensurate with the period implicit in the determination of Revenue Support Grant (i.e. a 4% reducing balance basis).

3. PRUDENT PROVISION

- 3.1.** The Director Of Corporate Services informed Council on 22nd February 2017 of the ongoing review into the basis of the MRP, and that discussions were being held with the Wales Audit Office (WAO) in reviewing the procedural aspects, and in determining whether the proposals are considered prudent.

The basis of the proposal is for the ‘Asset Life’ method to be applied to all supported borrowing including capital expenditure incurred before 1st April 2008.

- 3.2.** The proposed amendment to the MRP Policy is based on the following methodology, discussed with the WAO:
- For the supported borrowing, including capital expenditure incurred before 1st April 2008, the charge to revenue will be over 40 years by the straight line method, which is commensurate with the average of existing asset useful economic lives. In essence this replaces the 4% reducing balance method by a 2.5% straight line method. This can be considered a more prudent approach than the current provision because it introduces a more certain period for eliminating the debt liability.
 - The Authority’s property valuer has reviewed the asset portfolio supported by the current debt and calculated the expected current average lives at some 39.2 years.
 - For unsupported borrowing, the charge to revenue will be over 40 years by the straight line method, or over the estimated economic life of the asset if that is less than 40 years.
 - Asset lives within the Fleet Programme range from 1 to 10 years, and these periods will continue to be used to determine the MRP

- Local Government Borrowing Initiative (LGBI) Highways. It is estimated that asset lives within this programme are 20 years and this is the period that will be used to determine the MRP.
- For the Housing Revenue Account, the calculation will remain at 2% of the opening capital Financing requirement (CFR) each year up until April 2021 following which the MRP on new expenditure will need to be on the Asset life or the Depreciation method in line with the new Item 8 determination issued by Welsh government following the exit of the subsidy system.

3.3 The implications of the proposed amended MRP Policy for the 50 year period which applies to the Council Fund supported and unsupported borrowing 2016/17 to 2065/66 is outlined in Appendix 1 and summarised in Table 1 for 2016/17 to 2020/21, with 2019/20 being the final year of the current 3 year Medium Term Financial Plan.

Table 1 – Implications of Proposed Amended MRP

Financial Year	Estimated Current MRP £'000	Proposed Amended MRP £'000	Difference £'000
2016/17	7,733	4,833	-2,900
2017/18	7,423	4,833	-2,590
2018/19	7,126	4,833	-2,293
2019/20	6,841	4,833	-2,008

The table reflects the MRP on the existing borrowing only. There will be additional savings on the MRP charges in the initial years of new future borrowings.

- 3.4 It is evident from Table 1 that significant financial savings averaging £2.5 million per annum are anticipated over the period 2016/17 to 2019/20 arising from the proposed amendment to the MRP Policy.
- 3.5 In addressing the AAG's requirements in respect of the Act, the following should be noted from Appendix 1 in respect of the proposed amendment to the MRP Policy:
- A reduced charge to revenue is projected for the period 2016/17 to 2027/28
 - An increased charge to revenue is projected for the period 2028/29 to 2055/56
 - A reduced charge to revenue per annum is projected from 2056/57

- In respect of opening CFR debts as at 31/3/16, by the 4% reducing balance method, even after 100 years a liability of £3.261m still remains whereas with the 2.5% straight line method the debt is totally extinguished by 2055/56 (i.e. in 40 years)

In conclusion, the proposed amendment to the MRP Policy determines a more prudent annual charge to revenue whilst acknowledging the Council's responsibility to its current and future citizens in responding to the requirements of the Act. Appendix 1 clearly demonstrates that by applying the proposed average asset useful economic life of 40 years on a straight line basis to supported borrowing including capital expenditure incurred before 1st April 2008, this historic liability is actually extinguished after 40 years instead of leaving a residual debt balance for citizens 100 years plus into the future. This residual liability will mean that future citizens will be required to finance this historic debt, at the expense of real services making a real difference to citizens' lives.

- 3.6 In responding to the AAG's requirement in paragraph 2.3, the periodic valuation of the Council's fixed assets demonstrates that an average useful life of 40 years is prudent since it reflects current and future useful economic lives. In addition, a maximum useful life of 40 years for infrastructure assets is consistent with other Local Authorities.
- 3.7 Although discussions with the WAO remain ongoing it is recognised that the Council's amendment proposal is both prudent and sensitive to the well-being of future generations. The WAO however, has indicated that although it is not minded to challenge the proposed amendment to the MRP Policy, any new information prior to the certification of the annual accounts for the 2016/17 financial year may result in the proposed amendment not being supported.

4. FINANCIAL IMPLICATIONS

- 4.1. For the 2016/17 financial year and for the period of the Medium Term Financial Plan 2017/18 to 2019/20, revenue savings of circa £2.5 million per annum are projected.
- 4.2. Annual revenue savings will continue to be realised until the 2027/28 financial year following which an increased charge to revenue is evident until the 2055/56 financial year before annual savings are again realised from the 2056/57 financial year.

5. RECOMMENDATION(S)

- 5.1. An amendment to the current MRP Policy, to one supporting a more prudent annual provision, be approved on the following basis:

- 5.1.1. Supported borrowing and expenditure incurred before 1st April 2008, as at 31st march 2016 – charged to revenue over 40 years on a straight line basis, and this policy be implemented for the 2016-2017 accounts and for the Revenue Budget Strategy 2017-2018 to 2019-2020.
- 5.1.2. Unsupported Borrowing - the future borrowing value is charged to revenue over 40 years or by the estimated economic life of the asset if shorter.
- 5.1.3. The MRP policy for the local Government Borrowing Initiative (LGBI) Highways and for the fleet programme to remain as currently approved

Appendix A

Existing CFR ONLY (excludes LGBI, MEP and HRA)

Year Ended	CFR	MRP 4% on Reducing Balance	CFR	MRP 2.5% Straight Line	Difference
	£'000	£'000	£'000	£'000	£'000
31/03/2016	193,316	7,733	193,316	4,833	-2,900
31/03/2017	185,583	7,423	188,483	4,833	-2,590
31/03/2018	178,160	7,126	183,650	4,833	-2,294
31/03/2019	171,034	6,841	178,817	4,833	-2,008
31/03/2020	164,192	6,568	173,984	4,833	-1,735
31/03/2021	157,625	6,305	169,152	4,833	-1,472
31/03/2022	151,320	6,053	164,319	4,833	-1,220
31/03/2023	145,267	5,811	159,486	4,833	-978
31/03/2024	139,456	5,578	154,653	4,833	-745
31/03/2025	133,878	5,355	149,820	4,833	-522
31/03/2026	128,523	5,141	144,987	4,833	-308
31/03/2027	123,382	4,935	140,154	4,833	-102
31/03/2028	118,447	4,738	135,321	4,833	95
31/03/2029	113,709	4,548	130,488	4,833	285
31/03/2030	109,160	4,366	125,655	4,833	466
31/03/2031	104,794	4,192	120,823	4,833	641
31/03/2032	100,602	4,024	115,990	4,833	809
31/03/2033	96,578	3,863	111,157	4,833	970
31/03/2034	92,715	3,709	106,324	4,833	1,124
31/03/2035	89,006	3,560	101,491	4,833	1,273
31/03/2036	85,446	3,418	96,658	4,833	1,415
31/03/2037	82,028	3,281	91,825	4,833	1,552
31/03/2038	78,747	3,150	86,992	4,833	1,683
31/03/2039	75,597	3,024	82,159	4,833	1,809
31/03/2040	72,573	2,903	77,326	4,833	1,930
31/03/2041	69,670	2,787	72,494	4,833	2,046
31/03/2042	66,884	2,675	67,661	4,833	2,158
31/03/2043	64,208	2,568	62,828	4,833	2,265
31/03/2044	61,640	2,466	57,995	4,833	2,367
31/03/2045	59,174	2,367	53,162	4,833	2,466
31/03/2046	56,807	2,272	48,329	4,833	2,561
31/03/2047	54,535	2,181	43,496	4,833	2,651
31/03/2048	52,354	2,094	38,663	4,833	2,739
31/03/2049	50,260	2,010	33,830	4,833	2,823
31/03/2050	48,249	1,930	28,997	4,833	2,903
31/03/2051	46,319	1,853	24,165	4,833	2,980
31/03/2052	44,466	1,779	19,332	4,833	3,054

31/03/2053	42,688	1,708	14,499	4,833	3,125
31/03/2054	40,980	1,639	9,666	4,833	3,194
31/03/2055	39,341	1,574	4,833	4,833	3,259
31/03/2056	37,767	1,511	0	0	-1,511
31/03/2057	36,257	1,450	0	0	-1,450
31/03/2058	34,806	1,392	0	0	-1,392
31/03/2059	33,414	1,337	0	0	-1,337
31/03/2060	32,078	1,283	0	0	-1,283
31/03/2061	30,795	1,232	0	0	-1,232
31/03/2062	29,563	1,183	0	0	-1,183
31/03/2063	28,380	1,135	0	0	-1,135
31/03/2064	27,245	1,090	0	0	-1,090
31/03/2065	26,155	1,046	0	0	-1,046

