Report To:	Council
Date of Meeting:	17th October 2017
Lead Member / Officer:	Cllr Julian Thompson-Hill / Richard Weigh, Head of Finance
Report Author:	Steve Gadd, Chief Accountant
Title:	Revised Minimum Revenue Provision (MRP) Policy 2017/18

1. What is the report about?

Following a review of the Council's current MRP Policy it has been identified that by changing the method for making the MRP a significant saving opportunity would be delivered. The proposed change also introduces a more equitable method for apportioning the costs associated with the capital programme.

2. What is the reason for making this report?

The purpose of the report is to seek approval for a revision to the MRP Policy for 2017/18.

3. What are the Recommendations?

3.1 Members are requested to consider and approve the following revisions to the MRP policy for 2017/18:-

3.1.1 Policy for 2017/18 – Option 3 (Asset Life Method – straight line) to be used for calculating MRP on outstanding supported borrowing as at 31 March 2017.The calculation will be the 'straight line' method over 50 years. This represents a change from Option 1 (Regulatory Method) as approved by Council on 14 February 2017.

3.1.2 Policy for 2017/18 – Option 3 (Asset Life Method – straight line) to be used for calculating MRP on Supported borrowing incurred on or after 1 April 2017. The calculation will be the 'straight line' method over an appropriate number of years, dependent on the period of time that the capital expenditure is likely to generate benefits. This also represents a change from Option1.

3.1.3 Policy for 2017/18 – Option 3 (Asset Life Method –straight line) to be used for calculating MRP on all capital expenditure funded from unsupported borrowing. This represents a continuation of the approved policy.

3.2 Members are requested to note the agreed use of the cash saving in 2017/18 and the recurring budget saving from 2018/19 as set out in the latest version of the Medium Term Financial Plan and summarised below:-

3.2.1 2017/18 Cash Saving –the cash saving of £1.861m will be placed in the Budget Mitigation Reserve in order to help mitigate the effects of budget reductions in 2018/19.

3.2.2 Ongoing saving of from 2018/19 – this will be used to reduce the capital financing budget by £1.861m as part of the strategy to balance the 2018/19 budget.

4. Report details

4.1 Local Authorities are required to set aside some of their revenue resources as provision for the repayment of debt annually. Regulations require an authority to make an amount of minimum revenue provision (MRP) each year which it considers to be prudent. Proper practice expects that the Council agrees a statement of its policy prior to the start of each financial year.

4.2 Members will be acutely aware of the continuing need to make budget reductions to close the annual resource shortfall to ensure that a balanced budget can be set each year.

4.3 Budget reductions generally take the form of efficiency savings made by services, cuts to services, or the raising of additional income through fees and charges. Many budget reductions impact on employment either directly through Council jobs (non-replacement of staff or redundancy), or indirectly through externally procured services. It is therefore very important to consider what other forms of budget reductions can be achieved which will protect both our services to the public and employment.

4.4 As part of the budget strategy for 2018/2019 officers have been critically reviewing the current MRP Policy. The Medium Term Financial Plan has included an estimate of savings from this review of £2m budget reduction from 2018/19 and £2m cash savings from implementing the policy in 2017/18. This has resulted in a reduction of the savings target for services of £4m for the current annual budget cycle to set the 2018/19 budget. The difference between the estimated saving and the actual saving will be covered by additional efficiencies identified within Corporately held budgets.

4.5 Appendices 1 and 2 to this report set out the technical information relevant to treasury management generally and MRP specifically and provides the information to support a change to our current Policy.

4.6 A large number of English authorities and a growing number of Welsh authorities have also reflected on the need to include a review of their MRP policies as a way by which significant budget reductions can be achieved without impacting on services.

5. How does the decision contribute to the Corporate Priorities?

Effective management of the council's revenue and capital budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

6. What will it cost and how will it affect other services?

The proposed change will release £1.861m cash saving in 2017/18 and an ongoing budget reduction of £1.861m. As set out above, without these savings services would need to identify a further £3.722m worth of cuts and savings which would equate to 6.8% of unprotected service budgets.

7. What are the main conclusions of the Well-being Impact Assessment?

A Wellbeing Assessment is included at Appendix 3.

The Well-being of Future Generations (Wales) Act 2015, places a requirement to:-

‘act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs’.

It also requires that authorities take account of, amongst other things:

‘the importance of balancing short term needs with the need to safeguard the ability to meet long term need’.

The recommendation to change the MRP policy for supported capital expenditure from reducing balance to straight line ensures that the costs are spread more evenly amongst the taxpayers benefiting from the capital expenditure. This is not considered as compromising the ability of future generations to meet their own needs merely that future generations pay for assets from which they benefit.

8. What consultations have been carried out with Scrutiny and others?

8.1 The changes have been recommended following a review of the MRP policy by the Council’s treasury management advisors and senior Finance Officers.

8.2 The Joint Council for Wales have urged local authorities to look at their MRP policies as one form of mitigation for the pressures on local government funding.

8.3 Welsh Audit Office have issued a letter on 7 January 2016 confirming that as stated in the regulations “the responsibility for determining what is prudent MRP lies with the Authority. It is not the role of the external auditor to determine for the authority what is prudent.” However as our external auditors WAO will review our approach as part of the audit of the 2017/18 Statement of Accounts to ensure that we have complied with all our statutory duties. The local WAO team are being kept informed of progress.

8.4 A report detailing the proposals was presented to Cabinet in September. Cabinet approved the proposal to recommend to Council the changes to the MRP policy. Cabinet have also, as part of the overall budget strategy, agreed to utilise the savings to help minimise the need to make savings within front line services.

9. Chief Finance Officer Statement

9.1 It is important that the Council maximise opportunities to save money in ways that do not negatively affect Council staff, service provision or charges to the public.

9.2 However it is equally important that the Council complies with its statutory duty to set a prudent MRP policy which is properly supported by adequate evidence and professional advice. Appendices 1 and 2 to this report sets out that evidence.

10. What risks are there and is there anything we can do to reduce them?

The decision to change MRP policy has long term effects that cannot be readily undone. There also remains a risk that WAO may challenge the approach during their audit of the 2017/18 Statement of Accounts.

11. Power to make the Decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.