This discussion paper has been written by officials of the Welsh Government. Ministers have not had an opportunity to comment on the contents. Exemplifications of changes are provided simply to inform discussion by DSG members. They are not Welsh Government proposals or statements of Government policy for or against changes.

Minimum Revenue Provision

Issue

1. The treatment of provision for the repayment of debt within the settlement model.

Background

2. 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 account for the principal cost of their debt in that financial year.

3. Since 2008 local authorities are required to calculate an amount of MRP which they consider to be **prudent**. The legislation does not define what constitutes a “prudent provision”. However guidance issued by the Welsh Government provides an interpretation of prudent provision and examples of options of acceptable methods for calculating a prudent level of MRP.

4. Four ready-made options are included in the guidance and the first two options are based on the principle that for supported borrowing through the RSG, the level of provision is reasonably commensurate with the period implicit in the determination of the grant.

5. Currently the settlement model includes an assumption for the repayment of supported debt principal based on 4% reducing balance basis.

6. Local authorities are legally obliged to “have regard” to guidance, but having done so may consider a more individually designed MRP approach is justified.

7. With its potential to make significant short term revenue savings without any impact on services and staffing levels, then a review of the MRP policy is high on the list of possible areas to generate revenue savings in local authorities.

Analysis

8. A review of MRP policies has confirmed that nearly all authorities (21 out of 22) have taken the opportunity to amend their policies relating to supported borrowing from the 4% reducing balance to levels of 3%, 2.5% & for some 2% to reflect assets average useful economic life. Some authorities have also chosen to change the basis from reducing balance to straight line.

9. Whilst the reducing balance method means that the debt will never be completely extinguished and a residual level of debt will remain for excessive years, when taking into account the time value of money however this may not be significant.

10. It is reasonable to question when using the straight line basis whether users benefit from use of the assets in the latter years as much as those in the early years. There is a risk that assets used today will be paid for by future generations.

Consideration

11. Given the evidence that suggests the vast majority of authorities do not currently apply 4% MRP for supported debt DSG are asked to consider whether the current assumption within the settlement model for a 4% per annum repayment of debt principal is still valid.

12. If it is not valid then views are welcomed on what might be a more appropriate assumption within the model.

Local Government Finance Policy
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