

REVIEW OF MINIMUM REVENUE PROVISION POLICY

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 debt is known as Minimum Revenue Provision (MRP) and the amount to be repaid is called the Capital Financing Requirement (CFR).
2. Even though the CFR is described as “debt funded”, an external loan has not necessarily been taken out – Cyngor Gwynedd has been borrowing internally for several years by now.
3. The general aim of the Welsh Government (WG) Guidelines published in 2018 is to ensure that the debt is repaid over a period reasonably commensurate with the period over which the associated capital expenditure will provide benefits, or in the case of borrowing supported from the government’s Revenue Support Grant (RSG), over a period that is reasonably commensurate with the period implicit in the grant determination.
4. The WG Guidelines recommends that an MRP Statement is approved annually before the start of each financial year and suggests several options to calculate a prudent level of MRP:

Method	Analysis
Reducing Balance	<ul style="list-style-type: none"> • front-loads provision • it will take hundreds of years to fully provide for the debt.
Straight Line	<ul style="list-style-type: none"> • fixed end-point at which point debt will have been fully provided for • The debt burden is fully relieved over a defined and much shorter period – a maximum of 50 years in line with the guidelines.
Annuity	<ul style="list-style-type: none"> • takes into account the time value of money – i.e. that paying £1k in 10 years’ time is less of a burden than paying it now. But there is still more of a burden on future generations. • fixed end-point at which point debt will have been fully provided for

5. Cyngor Gwynedd currently makes MRP based on the following methods. For supported borrowing it charges a 4% reducing balance based on the former regulations in place since 31/03/2008 and incorporates an "adjustment A" of £1.9m. For unsupported, prudential borrowing it charges a straight line charge over the relevant asset life.
6. Following an appraisal by the Council's Treasury Management advisors, it was recommended that the supported borrowing element of the MRP policy in the Statement be revised.
7. A straight-line approach is considered to strike the most appropriate balance between current and future generations. Spreading debt repayments more evenly over the generations that will benefit from the associated assets, has the effect of reducing debt provision requirements in the short to medium term.
8. The current policy (approved in March 2022) means that a charge of 4% on the annual reducing balance which will take 345 years to reduce to less than £100.
9. It is recommended that a more prudent approach be applied which will clear the CFR debt in fewer years, but which will offer savings in the first few years.
10. It is recommended that the policy is changed to one where the MRP is charged over the capital assets' useful life in equal instalments commencing in the year after the borrowing has been incurred. According to the Guidelines, MRP may be raised equally over a period of years up to 50 years utilising the straight line method. In the spirit of the former regulations that applied on 31st March 2008, incorporate an "Adjustment A" of £1.9m.
11. By changing the policy to a 50 year straight line method the resulting reduction in payments over the first 10 years from 2023/24 is reduced by £16million (based on the CFR balance at 31st March 2022). The largest saving being in the first year which gradually reduces. In the medium term savings can be found, whilst over the total period for comparison of the two policies the effect is cost neutral i.e. this is a reprofiling of repayments.
12. The table below shows the effect of changing policy until financial year 2032/33, whilst the graph below shows the effect up to 2083.

Year	Current Policy	Straight Line 50 yrs from 2024	Savings / (cost)
	Supported	Supported	
	£	£	£
Total	46,771,427	29,994,889	16,776,538
2023	5,171,533	5,171,533	-
1 2024	4,964,671	2,482,336	2,482,336
2 2025	4,766,084	2,482,336	2,283,749
3 2026	4,575,441	2,482,336	2,093,105
4 2027	4,392,423	2,482,336	1,910,088
5 2028	4,216,726	2,482,336	1,734,391
6 2029	4,048,057	2,482,336	1,565,722
7 2030	3,886,135	2,482,336	1,403,799
8 2031	3,730,690	2,482,336	1,248,354
9 2032	3,581,462	2,482,336	1,099,126
10 2033	3,438,204	2,482,336	955,868


