Welsh Government

Consultation on the Statutory Guidance on the Minimum Revenue Provision

A response by:

The Chartered Institute of Public Finance and Accountancy

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the people
in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. Introduction

1.1 CIPFA welcomes the opportunity to comment on the consultation on the changes proposed to the Welsh Government's Statutory Guidance on the Minimum Revenue Provision.

1.2 The Welsh Government will also be aware that CIPFA has recently updated both its Prudential and Treasury Management Codes[1]. A substantial element of the rationale for those changes is that the landscape of public service delivery has changed across the United Kingdom and the recent reductions in resources for local authorities have meant that local authorities have increasingly taken more commercial approaches. We note that a substantial number of the changes to the Welsh statutory guidance have followed those in the English Statutory Guidance.

2. Definition of Prudent Provision

2.1 CIPFA supports the need for Statutory Guidance on the Minimum Revenue Provision under the Prudential Framework (MRP Guidance). We consider the general principle should be that a local authority is required to make a prudent provision for the repayment of debt and that this prudent provision should ensure the period in which an authority charges MRP is commensurate with the period in which the capital expenditure benefits service users and council taxpayers. The prudent provision we note would be supported by the general Prudential Framework and the provisions, principles and limits included in the CIPFA Prudential Code. Specifically, it is supported by paragraph 43 of the Code which states:

'*The local authority shall ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through MRP/loans fund repayments) and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability*.'

2.2 We concur with the Welsh Government that local authorities should have the flexibility to define what would be a prudent provision against its individual needs and transactions.

3. Meaning of the Charge to a Revenue Account

3.1 We agree that the Minimum Revenue Provision cannot be a negative amount, as once an authority has made its statutory provision it cannot make subsequent changes to it. We concur that a negative provision is not in accordance with the spirit of a prudent provision.

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[1] *Prudential Code for Capital Finance in Local Authorities*, and *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes* both publications were issued by CIPFA in December 2017

3.3 We would note that there is a minor typographical error at paragraph 16 penultimate line. We think that 'top full council' should read 'to full council'.

4. Impact of Changing Methods for Calculating the Minimum Revenue Provision

4.1 We are of the view that a change in the methodology for calculating the MRP should not plan for an overpayment (although we recognise that the MRP Guidance allows for overpayments). However, we are also of the view that there may often be circumstances where events and transactions do not occur as planned or a fuller consideration of the current methodology shows that it resulted in overcharging.

4.2 We consider that local authorities should be allowed to rectify this situation as soon as possible. Where this occurs an authority should ensure that such overpayments are recouped in accordance with the general principle of prudent provision and that as far as possible this should ensure that this period is over which the capital expenditure provides benefit. This might under exceptional circumstances mean a nil charge for a short period. In such cases a local authority should be able to demonstrate that this represents a prudent provision for the MRP.

5. Other Comments

The Impact of IFRS 16 Leases

5.1 The Welsh Government is aware that IFRS 16 *Leases* is currently subject to consultation and is anticipated to be adopted across the public sector for the 2019/20 financial year, the first year of application of the Guidance on the MRP.

5.2 We note that currently the approach is unchanged from the 2012 edition of the guidance. It requires that the MRP requirement would be regarded as being met by

'a charge equal to the element of the rent/charge that goes to write down the balance sheet liability'.

This will mean that under proper practices provided in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code) depreciation and interest will be chargeable in respect of the majority of local authority leases (ie those which are not of short life or a low value).

5.3 Additionally, on transition there will be substantial numbers of operating leases which will be brought on to the balance sheet as a result of the move to IFRS 16. As capital financing transactions are defined under the 2003 Regulations and the Local Government Act 2003 on origination there might be some doubt as to whether these transactions meet the definition either of capital expenditure or of being a credit arrangement. We consider that the confirmation of the treatment of when a lease is brought on to the balance sheet should provide useful clarification on this issue but we note that this paragraph is included under the heading 'Finance Leases and PFI'. You will be aware that finance leases will not exist for lessees under the new standard and therefore these provisions in the statutory guidance will not apply on the introduction of IFRS 16.

5.4 The Welsh Government may be aware that the English equivalent of the MRP Guidance included provisions which anticipate the future adoption of IFRS 16 in its paragraph 43 extracted below for ease of reference.

'*LEASES AND PFI*

43. In the case of finance leases (or, when applicable, leases where a right-of-use asset is on balance sheet) and on balance sheet PFI contracts, the MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off- balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.'

Extract from Statutory Guidance on Minimum Revenue Provision MHCLG February 2018

5.2 We appreciate that the Welsh Government cannot produce statutory guidance on the basis of accounting standards which have not yet been introduced but would recommend that the Welsh Government also adopts this approach to 'future proof' the statutory MRP Guidance. This is an issue for the Welsh Government but if this is not changed we are of the view that this would inadvertently change Welsh Government policy on the issue of what is prudently charged to the Council Fund for leases. We would be very happy to discuss this with Welsh Government in more detail. We would note, however, as has been raised in initial informal discussions that separate consideration is likely to be needed for any operating leases which may be relevant to the Housing Revenue Account.

Minor Issue

5.3 We would note that there is a minor typographical error in paragraph 13 we think that 'considers' should be read as 'consider'.