ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**The Executive**
Date:	**2 March 2023**
Subject:	**Minimum Revenue Provision Policy (MRP)**
Portfolio Holder(s):	**Robin W. Williams – Portfolio Holder for Finance, Corporate Business and Customer Experience**
Head of Service / Director:	**Marc Jones – Director of Function (Resources) / Section 151 Officer**
Report Author:	**Claire Klimaszewski – Finance Manager**
Local Members:	**Not applicable**

A –Recommendation/s and reason/s

The Executive is asked to recommend to full Council that the Council approve the following MRP changes for the current financial year 2022/23 and beyond:-

1. To note the report in Appendix 1 and Link Asset Group's Report attached in Appendix 2 on Minimum Revenue Provision (MRP) options.

2. To change the Housing Revenue Account (HRA) MRP charge on supported borrowing CFR from 2% of the HRA capital financing requirement (CFR) to the Asset Life – Annuity approach for 60 years at the Council's average interest rate payable on its loans (Option 1ch in Table 2 in Appendix 1) from 1 April 2022.

3. To change the HRA MRP on unsupported borrowing CFR from 2% of the HRA CFR to the Asset Life – Annuity approach for 60 years at the Council's average interest rate on its loans (Option 2ch in Table 2 in Appendix 1) from 1 April 2022.

4. To change the Council Fund MRP on supported borrowing CFR from the Asset Life – Equal Instalment method to the Asset Life - Annuity approach for 46 years at the Council's average interest rate payable on its loans (Option 3ch in Table 2 in Appendix 1) from 1 April 2022.

5. To change the Council Fund MRP on unsupported borrowing CFR from the Asset Life – Equal Instalment approach to the Asset Life – Annuity method for 27.5 years at the Council's average interest rate payable on its loans from 1 April 2022.

6. To approve the revised MRP Policy Statement for 2022/23 and beyond in Appendix 2, which is based on the above options in recommendations 2 to 5.

Background Information

Under Regulation 21 of the Local Authorities (Capital Financing and Accounting) (Wales) Regulations 2003 requires local authorities to charge to the revenue account for each financial year, a Minimum Revenue Provision (MRP) to account for the cost of their debt in the financial year.

Regulation 22 of the 2003 Regulations requires the MRP charge to be prudent. The aim of a prudent provision is to ensure that the cost of the debt is charged to the revenue account over a period that is commensurate with that over which the capital expenditure provides benefits and that it is affordable.

The Council's borrowing must be prudent, although this is not defined by law or guidance. Link (2021) highlights that "It is, therefore, for each Authority to manage this appropriately, and to determine prudent repayment based on its own individual circumstances, taking into account medium / long term financial plans, current budgetary pressures, the Authority's current and future capital expenditure plans and funding needs, and any longer term transformational plans". Simply put, the Council can borrow as long as the repayments are affordable.

The available methods to determine a prudent provision are set out in Welsh Government Guidance on Minimum Revenue Provision, which was last revised in 2018. The guidance allows for 4 different methods:-

- The Regulatory Method;
- The CFR Method;
- The Asset Life Method;
- The Depreciation Method.

The Asset Life Method has two alternative methods:-

- The equal instalment method;
- The annuity method.

The guidance allows a local authority to change the method it uses to calculate all or part of its MRP at any time.

In 2018, the Council revised its MRP policy, and adopted the Equal Instalment Asset Life method to calculate its MRP charge for both its supported borrowing and unsupported borrowing.

In February 2021, the Council instructed its Treasury Management advisors (Link Group) to undertake a review of its MRP policy and to determine whether the MRP policy, adopted in 2018, remained fit for both current and future spending plans. However, given the other issues which the Council was dealing with at the time, the results of the review were not considered further at the time.

Given the significant change in the current economic climate, now is considered to be an opportune time to consider the results of the Link review. In considering the review, the Council must also consider the requirements of the Well Being of Future Generations (Wales) Act 2015, in ensuring that the change is sustainable for future generations.

The Link report is embedded below in background papers. This report recommends the Asset Life – Annuity approach to calculate MRP charges from 2022/23 onwards, on the basis that it is prudent and sustainable. Further information is provided in the report in Appendix A.

The recommendation for the annuity for HRA's MRP charges to be based on 60 years is because this is the first time the HRA would be charging MRP on the Asset Life basis. Previously, the HRA was required by statutory guidance to charge MRP on the basis of 2% of its CFR. This was relaxed in 2015/16 to allow the HRA to charge MRP on one of the four options permitted for Council Fund MRP charges. Houses tend to have long useful economic lives (UEL), hence the use of 60 years. Welsh Government guidance requires that, once the useful economic lives of assets have been set using the asset life basis, they cannot be changed. The recommendation for the Council Fund supported borrowing annuity to be based on 46 years is because the UEL for MRP charges on the Asset Life, albeit Equal Instalment basis were allocated at 50 years, the MRP charges changed to this basis 4 years ago. Finally, the MRP charges on the Council Fund unsupported borrowing is based on 27.5 years because projects funded by unsupported borrowing have always been calculated on the Asset Life though Equal Instalment basis, and this is the weighted average of all the outstanding UELs on these assets going forward on the Asset Life – Annuity basis. Each year, the average asset life will need to be recalculated to include new assets as they are completed and operational.

B – What other options did you consider and why did you reject them and/or opt for this option?
Maintaining the existing policy remains an option, but it is believed that moving to the annuity method is a prudent method which provides a more prudent approach. Different options were explored in relation to periods of time and interest rates for the annuity method, and the most prudent and affordable were selected.

C – Why is this a decision for the Executive?
The MRP policy forms part of the Council's Annual Treasury Management Strategy Statement (TMSS). The Executive is responsible for reviewing and challenging the contents of the TMSS and recommending its approval to the full Council.

CH – Is this decision consistent with policy approved by the full Council?
The MRP Policy will form part of the TMSS, which is approved by the Council

D – Is this decision within the budget approved by the Council?
Yes

Dd – Assessing the potential impact (if relevant):		
1	How does this decision impact on our long term needs as an Island?	It changes how existing and future loans will be funded and, although in cash terms the annual MRP charge will be higher in future years, when the future costs are discounted to take account of inflation, it provides a positive impact on the level of resources required to repay the existing loans.
2	Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how?	When the future costs are discounted to take account of inflation, it results. in reduced costs for the Council.
3	Have we been working collaboratively with other organisations to come to this decision? If so, please advise whom	Not applicable
4	Have Anglesey citizens played a part in drafting this way forward, including those directly affected by the decision? Please explain how.	The citizens of Anglesey have expressed the view that the Council should aim to be more efficient in the provision of services. This change will release resources in early years which can be redirected to the provision of services
5	Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.	None
6	If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.	None
7	Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.	None

E -	Who did you consult?	What did they say?
1	**Chief Executive / Leadership Team (LT)** (mandatory)	The change in policy was discussed and approved as part of the overall discussion on the budget strategy and on treasury management.

2	**Finance / Section 151** (mandatory)	Author of the report.
3	**Legal / Monitoring Officer** (mandatory)	Part of the LT.
4	**Human Resources (HR)**	Not applicable
5	**Property**	Not applicable
6	**Information Communication Technology (ICT)**	Not applicable
7	**Scrutiny**	The TMSS is scrutinised by the Governance and Audit Committee, with the item discussed at its meeting on 7 February 2023.
8	**Local Members**	Not applicable
9	**Any external bodies / other/s**	Not applicable

F - Appendices:

Appendix 1 – Report Outlining Options for Revised Prudent Minimum Revenue Provision Charges for the Housing Revenue Account (HRA) and Council Fund
Appendix 2 – Revised MRP Policy for 2022/23
Appendix 3 – Link Group report on options for MRP for Authority

FF - Background papers (please contact the author of the Report for any further information):

APPENDIX 1

Report Outlining Options for Revised Prudent Minimum Revenue Provision (MRP) Charges for the Housing Revenue Account (HRA) and Council Fund.

1 Introduction

1.1 In February 2021, the Council's Treasury Management consultants, Link Group, completed a review of the Council's current MRP Policy, which has been in place since 2018/19. Link also analysed the MRP charge relating to the HRA in addition to Council Fund's MRP policy. Council borrowing can only be taken out to fund capital expenditure, unless there is a capitalisation directive from Welsh Government to capitalise certain revenue expenditure, though this is only permitted for exceptional circumstances. The Council has to follow requirements of the Local Government Act 2003, Welsh Government regulations, statutory guidance and determinations in relation to its MRP policy and how it calculates MRP. Since CIPFA introduced its prudential borrowing in April 2004, there has not been an amount set by Welsh Government as a limit on Council Fund borrowing and, more recently, the limit on indebtedness for the HRA has been abolished. Instead the Council's borrowing must be prudent, though this isn't defined by law or guidance. Link (2021) highlights that " *It is therefore for each Authority to manage this appropriately and to determine prudent repayment based on its own individual circumstances, taking into account medium / long term financial plans, current budgetary pressures, the Authority's current and future capital expenditure plans and funding needs and any longer term transformational plans".* Simply put the Council can borrow as long as repayments are affordable.

1.2 Each year, the Council Fund and HRA are required to make a minimum revenue provision (MRP) charge to revenue which is prudent and affordable. This ensures that there is cash capacity each year to help repay borrowing. Welsh Government guidance and determinations allow several options for calculation of a prudent MRP charge. Link has calculated what the MRP charges would be under each of the options highlighted in Welsh Government guidance, for both supported and unsupported borrowing and has identified which option is the most affordable. Where this report provides options on a different basis to Link's, this is due to time which has elapsed since the report and / or to ensure the Council's MRP charges are based on the statutory guidance in relation to asset lives.

1.3 It must be highlighted that the options show a reduced charge in the short term, although this is not an actual saving as MRP has to be charged until the Capital Financing Requirement (CFR) is zero. Instead, it re-profiles the MRP charges, so that charges in the short-term are reduced but these might be higher in the longer term. However, requirement that future generations must have at least the same quality of life as in the present, the declining value of money over time must be taken into account in assessing which MRP options are more affordable. £1 now is worth more than it would in the future because of inflation and other economic factors. Therefore, higher MRP charges in the future will not have the same impact as these would in the present. Link has taken this into account in all of the options they analysed, by calculating the Net Present Value (NPV) for each cost or reduction to assess what the impact will be on future generations, when taking into account that each £1 will be worth less in the future than it is now. All options show that when adjusted for the time value of money using the cost of capital of 3.5% as recommended in His Majesty's Treasury Green Book, the total of all costs and reductions arising from each option proposed is a net reduction in MRP costs. Link then recommends the options with the highest reduction from each option. These are considered to be more prudent, affordable and more realistically assess the impact of the options on future generations.

2. Adopting the Annuity Method

2.1 The Link report assesses the financial impact of the change. The alternative calculations in tables 2, 3 and 4 have been updated to take account of the change in the outstanding capital financing requirement and to update interest rates and the outstanding lives of the Council's assets. The changes proposed below are recommended for implementation in the current financial year 2022/23.

2.2 The current equal instalment method maintains the level of MRP charge, thereby reducing the outstanding principal by the same amount over time. The annuity method follows a similar method to a standard repayment mortgage, where the combined repayment sum of principal repayment and interest remains constant and, as a result, the amount of principal repaid in the early years is low and increases over time. Therefore, under the annuity method, the MRP charge is low in the initial years and increases over time.

2.3 As mentioned above, the MRP charge is lower in the early years. The Council's CFR will also reduce at a lower pace than under the equal instalment method and given that the charge to the revenue account will also be lower in the early years, it will reduce the Council's cash balances, which may impact on the annual investment returns. However, the MRP charge is not the actual repayment of loans. Instead it creates the cash capacity each year towards repayment of loans as they fall due. Table 1 below shows the maturity profile of the Council's PWLB loans as at 31 March 2022. This shows that the majority of the Council's loans (89%) are due to be repaid in the long-term. The annuity method, as mentioned, re-profiles the MRP charges so that the charges are lower now and higher in the long-term. This is cheaper as the value of the higher charges will be worth less in the future, reducing the impact on future generations, as discussed in more detail below. A benefit of re-profiling the higher charges to the long-term is that it will help ensure that the MRP charges create the capacity to repay debt at a more appropriate time, when the loans fall due for repayment.

Table 1

Maturity Profile of The Council's Outstanding Loans

	2021/22 Outstanding principal £'000	2021/22 Accrued interest £'000	2021/22 Cost less accumulated amortisation £'000	2020/21 Outstandin g principal £'000	2020/21 Accrued interest £'000	2020/21 Cost less accumulated amortisation £'000
>50 years	-	-	-	-	-	-
34-50 years	49,976	-	49,976	49,976	-	49,976
23-33 years	45,712	-	45,712	45,712	-	45,712
15-22 years	11,932	-	11,932	11,932	-	11,932
11-14 years	2,194	-	2,194	2,194	-	2,194
7-10 years	4,938	-	4,938	4,683	-	4,683
4-6 years	4,523	-	4,523	4,526	-	4,526
1-3 years	3,401	-	3,401	5,235	-	5,235
Total Long-Term Borrowing	**122,676**	**-**	**122,676**	**124,258**	**-**	**124,258**
Total Short-Term Borrowing (< 1 year)	**2,672**	**1,892**	**4,564**	**266**	**1,892**	**2,158**
Total	**125,348**	**1,892**	**127,240**	**124,524**	**1,892**	**126,416**

2.4 The Link Report assesses the fact that, over time, the value of money decreases and that £1 now is worth much less at the end of the repayment period. The report, therefore, considers the Net Present Value of the options which discounts the future payments down to their true future value. Link's report confirms the important role of taking the time value into account by highlighting that CIPFA's The Practitioners Guide to Capital Finance in Local Government (2019) states:-

> 'The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now.
>
> The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due.
>
> The annuity method would then be a prudent basis for providing for assets that provided a steady flow of benefits over their useful life.'

3. Link's Recommendations on the HRA MRP charges going forward

3.1 The MRP charge on HRA borrowing has historically been charged at 2% of the HRA's proportion of Capital Financing Requirement (CFR), in accordance with the Welsh Government's statutory Guidance on the Item 8 Determination. In 2015, Welsh Government changed the determination to allow the HRA MRP charge to be calculated by more options, aligning it to the methods the MRP can be calculated for the Council Fund MRP. Link recommends that Option 3 (in the Welsh Government determination) – the annuity asset life method, would result in highest NPV for both supported and unsupported borrowing CFR for the HRA. Link appraised 4 annuity options for supported borrowing, and the most affordable option for the present and for future generations is option 1d, where the annuity is based on 60 year asset lives, using the Council's average borrowing rate of 4.58% at 1 April 2022. This would result in an NPV of cost reductions of (£1.046m). Similarly, an annuity based on asset life of 60 years for the HRA's unsupported borrowing, at the Council average borrowing rate of 4.58% (2d) would result in a total NPV of (£2.616m) over the asset life of 60 years. Therefore, for both HRA supported and unsupported borrowing the annuity method as recommended by Link over 60 years at the interest rate of 4.58% should be implemented. It will also be more prudent than the current approach as, instead of the CFR taking 300 years to be reduced to nil, it would take 60 years and will not impact the future generations beyond 60 years. The recommended options are highlighted in green in the table below. The HRA options are summarised below in Table 2.

Table 2

Comparison of the Various Options in Switching the HRA MRP Policy to an Annuity Method

HRA		MRP Charge 2022/23 based on current basis £000	Revised PWLB MRP Charge 2022/23 £000	Estimated PWLB MRP charges 2023/24 £000	(Reduction) / Increase in MRP 2022/23 £000	2023/24 £000	2024/25 £000	Whole Life NPV at 3.5% discount rate £000
Option 1 - HRA Supported borrowing switch to annuity								
1a)	Annuity 55 years at 2.83%	220	86	88	(135)	(128)	(121)	(158)
1b)	Annuity 50 Years at 4.578%	220	60	63	(160)	(153)	(146)	(205)
1c)	Annuity 55 years at 4.578%	220	47	49	(173)	(167)	(160)	(648)
1ch)	Annuity 60 years at 4.578%	220	37	39	(183)	(177)	(171)	(1,046)
Option 2 - HRA Unsupportd Borrowing switch to annuity								
2a)	Annuity 55 years at 2.83%	548	213	219	(335)	(318)	(301)	(406)
2b)	Annuity 50 years at 4.578%	548	150	157	(398)	(380)	(362)	(524)
2c)	Annuity 55 years at 4.578%	548	117	122	(431)	(415)	(398)	(1,623)
2ch	Annuity 60 years at 4.578%	548	92	96	(456)	(441)	(426)	(2,616)

4. Recommendations on the Council Fund MRP charges going forward

4.1 The Council changed its MRP policy and method in 2018/19 for Council Fund supported borrowing, following advice from Link Group. This changed the charge from 4% of the Council Fund's CFR to being charged on an asset life – equal instalment basis. This was applied retrospectively, which created a £12m overpayment which can be offset against current or future MRP charges. This aligned the MRP charges on supported borrowing with the asset life equal instalment method of charging for unsupported borrowing funded expenditure. This resulted in a more prudent MRP charge as it reduced the time the CFR is reduced to zero from 200 years to 50 years, as well as more consistent approach to charging MRP for the Council Fund. This approach was considered prudent and affordable in 2018/19. However, a prudent MRP can change over time depending on the internal and external factors affecting the Authority. The significant inflationary increases affecting the Council, its suppliers, partners, service users and other stakeholders is challenging for all, and has changed what is affordable. A prudent MRP provision cannot be looked at in isolation without taking into account the wider financial and economic context affecting the Council. In this more complex financial context, Link recommends the Asset Life – Annuity Approach. This uses the economic useful life (EUL) of its assets still, but reprofiles the charges as discussed above.

4.2 MRP on Council Fund Supported Borrowing

4.2.1 Table 3 below provides the various options for an MRP charge based on the asset-life annuity approach. Option 3 relates to the MRP charges for Council Fund supported borrowing. Link provides analysis for two different years i.e. annuity for 50 years or 48 years. As time has moved on since the report was received, the options for annuity approach for asset lives of 46 years is instead provided in the table above for option 3. These periods were chosen because, when the Council changed the MRP policy in 2018/19, the asset life assigned to the whole balance of the Council Fund supported borrowing CFR was 50 years, as this is a permitted proxy figure to use when the asset lives for individual assets cannot be identified (in accordance with the Welsh Government Guidance: Minimum Revenue Provision 2018). When Link undertook the review of the Council Fund MRP policy, 2 years had elapsed from the original 50 years, hence Link provided options for 48 years. This has been re-calculated to 46 years, as the figures have been amended from 31 March 2020 to 31 March 2022. Welsh Government Guidance highlights that once an asset-life for the purposes of MRP has been calculated that it cannot be changed. EUL have reduced from 50 to 46 years.

4.2.2 Option 3ch is recommended for approval as this would be the most prudent of the options (highlighted in green in the table below). This does not increase the period over which the MRP is charged, and it is based on the Council's average interest rate on actual borrowing taken out from the PWLB. This would reduce the MRP charge for 2022/23 to £1.067m and the NPV for this option is (£8,311). This is not the highest NPV, which is option 3a, however, if this option was selected, it would increase the period by 4 years over which the CFR is paid off and might be in breach of Welsh Government guidance. This approach reduces the MRP charge for Council Fund supported borrowing for the years 1 to 27 years. From year 28 (2049/50), the annual MRP starts to rise by approximately £100k per year until year 46, when payments will cease. However, as mentioned, the NPV analysis for this option shows that overall it is a prudent option, as it takes into account that each £1 in the future is worth less than it is today.

Table 3

Comparison of the Various Options in Switching the Council Fund MRP Policy for Supported Borrowing to an Annuity Method

Council Fund		MRP Charge 2022/23 based on current basis £000	Revised PWLB MRP Charge 2022/23 £000	Estimated PWLB MRP charges 2023/24 £000	(Reduction)/Increase in MRP 2022/23 £000	2023/24 £000	2024/25 £000	Whole Life NPV at 3.5% discount rate £000
Option 3 - Supported borrowing switch to annuity								
3a)	Annuity 50 years at 2.83%	1,560	661	680	(899)	(862)	(842)	(7,650)
3b)	Annuity 50 years at 4.578%	1,542	388	406	(1,172)	(1,136)	(1,117)	(10,598)
3c)	Annuity 46 years at 2.84%	1,542	755	777	(805)	(765)	(742)	(5,483)
3ch)	Annuity 46 years at 4.578%	1,542	475	497	(1,085)	(1,045)	(1,022)	(8,113)

4.3 MRP on Council Fund Unsupported Borrowing

4.3.1 Table 4 below provides two options for changing the calculation of the MRP charges for Council Fund unsupported borrowing. The options on this are limited to the average EULs of the Council's assets funded from unsupported borrowing. Once assets' EULs have been estimated for the asset life approach, these cannot be extended, whether the charge is based on equal instalment method or annuity method. The outstanding EUL of every asset funded from unsupported borrowing were calculated. The average EUL of these were 22 years. However, in order to take into account the EULs of the assets which required higher amounts of borrowing so that the average EUL is more proportionate, a weighted average EUL was calculated using the CFR of each individual asset / total CFR. The weighted average EUL is 27.5 years.

4.3.2 The two options provided are based on the same EUL of 27.5 years, the difference between the two is the interest rate used to calculate the annuity. Option 4a uses the Council's average interest rate of 4.578% on its Public Works Loans Board (PWLB) loans, and option 4b uses the PWLB interest rate of 2.90% for a loan taken out for 27 years. The more prudent of the two is the use of the Council's average interest rate, which provides a higher NPV than 4b. This means that the most cost effective approach is option 4a, which would be £1.811m cheaper than the current equal instalment method when the present value of the future reductions / costs are calculated, compared with the £1.3m with option 4b. Option 4 is, therefore, recommended for the calculation of MRP via the asset life – annuity method (highlighted in green).

Table 4

Comparison of the Various Options in Switching the Council Fund MRP Policy for Unsupported Borrowing to an Annuity Method

Council Fund	MRP Charge 2022/23 based on current basis £000	Revised PWLB MRP Charge 2022/23 £000	Estimated PWLB MRP charges 2023/24 £000	(Reduction) / Increase in MRP 2022/23 £000	2023/24 £000	2024/25 £000	Whole Life NPV at 3.5% discount rate £000
Option 4 Unsupported borrowing switch to annuity							
4a) Annuity 27.5 years at 4.578%	1,304	477	499	(827)	(805)	(742)	(1,811)
4b) Annuity 27.5 years at 2.90%	1,304	613	631	(691)	(673)	(614)	(1,300)

5. Conclusion

5.1 Each year, a charge is made against revenue to create the cash capacity to repay loans in the future. This is the annual MRP charge. The actual amount to charge is not set in statute, though statutory guidance provides four different methods to use when calculating the MRP charge. The guidance allows Section 151 Officers to change between the methods allowed in order to be able to charge a prudent and affordable charge. The Asset Life – annuity method is recommended for the HRA and Council Fund MRP charges, as outlined above as they are prudent, affordable and sustainable, resulting in cheaper charges overall when the time value of money is taken into account by NPV analysis. The analysis shows that the charges are lower in the near term and higher in the long-term, but this matches the Council's Loan repayment profile, so that the cash capacity generated via higher MRP charges in the future will be available when more loans are repayable.

APPENDIX 2

Minimum Revenue Provision Policy Statement 2022/23

The Council is required to pay off an element of the accumulated Council Fund and HRA capital spend each year (the CFR) through a revenue charge (the minimum revenue provision, MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision, VRP).

The Welsh Government statutory guidance requires the Council to approve an MRP Statement in advance of each year. The guidance also states "if it is ever proposed to vary the terms of the original statement during the year, a revised statement should be put to the Council at that time". A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:-

From 1st April 2022 for all capital expenditure funded by supported and unsupported borrowing (CFR), MRP will be charged on the asset life - annuity method at the Council's average interest rate on all of its loans at the end of each relevant year-end.

MRP charges based on the asset life – annuity method may not be charged until the year the asset becomes operational. The S151 Officer may postpone the MRP charge until the financial year following the one in which the asset becomes operational. The estimated asset life of the asset would be determined in the year the MRP commences and would not change over the life of the asset. The estimated life periods, will be set by the S151 Officer based upon advice received from the relevant officers and will have regard to Statutory requirements and Welsh Government guidance in relation to MRP and asset life. Where land is purchased, the asset life will be based on the asset life of the asset placed on the land, which in the majority of cases will be 50 years in line with the asset life for buildings.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis, which most reasonably reflects the anticipated period of benefit that arises from the expenditure. In addition, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

The Housing Revenue Account (HRA) MRP charge for its share of supported and unsupported CFR, will also be based on the asset life – annuity method at the Council's average interest rate on its loans at the relevant year end.

Any repayments included in annual PFI or finance leases are applied as MRP and will be consistent with the asset life – annuity basis over the life of the lease or PFI scheme.

APPENDIX 3

Link Group Report on MRP Options Appraised

Isle of Anglesey County Council

Minimum Revenue Provision Review

February 2021

Confidential

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1. Introduction

1.1 Report Brief

Link Group ("Link") carried out a detailed review of the Minimum Revenue Provision ("MRP") for Isle of Anglesey County Council ("the Authority") in 2017/18. The previous review was limited in scope to focus only on identifying options for the General Fund situation. The Authority would like to assess if there is scope to review the MRP methodology for the Housing Revenue Account ("HRA") and explore if there are any further options that could be considered for the General Fund.

This review provides the Authority with an independent check that the MRP Strategy and Policy are fit for both the current and future spending plans. It also provides the necessary challenge to ensure that any potential options are not missed when considering the capital financing decisions for new capital expenditure.

This report includes:

- **A review of the current MRP Policy provision for the HRA, capital expenditure and financing.**
- **A review of the current methodology applied for both supported and unsupported borrowing for the General Fund.**
- **An outline of the options available that can be considered to provide the optimum MRP Strategy.**
- **Provision of suggested changes to the current MRP Policy Statement.**
- **A comparison of amounts of MRP charged with those that may alternatively be available.**
- **Provision of appropriate support and guidance to deal with queries raised with your external auditor where required.**

2. Executive Summary

2.1 Overview

Local Authorities are required by statute to make a charge to the General Fund and HRA to provide for the repayment of debt resulting from capital expenditure, known as Minimum Revenue Provision ("MRP"). The Authority is required to determine a level of MRP it considers to be prudent, whilst having regard to MRP Guidance issued by Welsh Government ("WG"). The Guidance gives four options for determining MRP for the General Fund which it considers to be prudent, but does not exclude alternative approaches. For the HRA, the Guidance requires authorities to follow one of the four options set out in the General Determination of the Item 8 Credit and Item 8 Debit (Wales) 2015.

2.2 HRA Options Summary

Link has identified the following alternative options for the HRA for making prudent MRP. Full consideration of HRA options are in section 5 of this report.

- **Option 1 – Supported borrowing** – change to an annuity method.
- **Option 2 – Unsupported borrowing**– change to an annuity method.

Table 1: Summary of MRP options – HRA

HRA		(Reduction) / Increase in MRP			Whole life NPV at 3.5% discount rate £'000
		2020/21 £'000	2021/22 £'000	2022/23 £'000	
OPTION 1 - Supported switch to annuity					
(1a)	**Annuity 55 years @ 2.79%**	(139)	(132)	(125)	(161)
(1b)	**Annuity 50 years @ 4.34%**	(162)	(154)	(147)	(164)
(1c)	**Annuity 55 years @ 4.34%**	(176)	(169)	(162)	(621)
(1d)	**Annuity 60 years @ 4.34%**	(187)	(181)	(174)	(1,035)
OPTION 2 - Unsupported switch to annuity					
(2a)	**Annuity 55 years @ 2.79%**	(346)	(328)	(311)	(400)
(2b)	**Annuity 50 years @ 4.34%**	(402)	(384)	(365)	(409)
(2c)	**Annuity 55 years @ 4.34%**	(438)	(421)	(404)	(1,545)
(2d)	**Annuity 60 years @ 4.34%**	(466)	(450)	(434)	(2,574)

Of the savings reflected in the table above the maximum Net Present Value ("NPV") savings would result from implementing options 1d and 2d. If these options were chosen they have a combined maximum NPV over the whole life of **£3.6m,** and a total saving in 2020/21 of **£0.7m.**

2.3 General Fund Options Summary

Link has identified the following alternative options for the General Fund for making prudent MRP. Full consideration of General Fund options are in section 6 of this report.

- **Option 3 – Historic / Supported borrowing** – change to an annuity method.
- **Option 4 – Unsupported borrowing**– change to an annuity method.

Table 2: Summary of MRP options - General Fund

GF		(Reduction) / Increase in MRP			Whole life NPV at 3.5% discount rate £'000
		2020/21 £'000	2021/22 £'000	2022/23 £'000	
OPTION 3 - Historic / Supported switch to annuity					
(3a)	Annuity 50 years @ 2.79%	(808)	(790)	(770)	(6,679)
(3b)	Annuity 50 years @ 4.53%	(1,084)	(1,066)	(1,047)	(9,628)
(3c)	Annuity 48 years @ 2.80%	(759)	(738)	(718)	(5,576)
(3d)	Annuity 48 years @ 4.53%	(1,042)	(1,022)	(1,002)	(8,411)
OPTION 4 - Unsupported switch to annuity					
(4a)	Annuity life outstanding individual projects @ 4.53%	(415)	(388)	(359)	(1,804)
(4b)	Annuity life outstanding individual projects @ PWLB annuity rate	(261)	(243)	(225)	(1,153)
(4c)	Annuity 50 years @ 4.53%	(640)	(623)	(605)	(2,324)
(4d)	Annuity 35 years @ 2.72%	(500)	(487)	(473)	(1,639)

Of the savings reflected in the table above the maximum NPV savings would result from implementing options 3b and 4c. If these options were chosen they have a combined maximum NPV over the whole life of **£11.9m,** and a total saving in 2020/21 of **£1.7m.**

The total combined maximum NPV for the HRA and General Fund is **£15.5m**.

All of the HRA options and the GF unsupported borrowing options 4c & 4d result in the current year's capital financing requirement ("CFR") balance being repaid earlier than under the existing method. Repaying the CFR balance over a shorter period could also be considered to be more prudent.

It is important to note that all of the options in tables 1 & 2 above are prospective and do not amend any previous year calculations.

For the purpose of this report the Authority's future capital expenditure estimates have not been included in the analysis and all options are based on the CFR position as at 31 March 2020.

2.4 Further Issues to Consider

A reduction to MRP charges in the short / medium term will lead to a higher CFR and borrowing requirement than under the Authority's current MRP policy, as assuming all other factors remain equal the Authority will have less cash than if no change was made. The cost for the Authority will depend on the Authority's treasury position and interest rates prevailing at the time.

Whilst there are provisions within the Guidance which provide options on application, neither the guidance nor legislation defines what is prudent. It is therefore for each Authority to manage this appropriately and to determine prudent repayment based on its own individual circumstances, taking into account medium / long term financial plans, current budgetary pressures, the Authority's current and future capital expenditure plans and funding needs and any longer term transformational plans.

This could also mean that the MRP policy adopted for a particular year in response to extraordinary financial pressures, such as Covid 19, is considered a prudent approach in helping to manage those pressures and protect vital frontline services.

Any change in MRP policy needs to comply with the Well-being of Future Generations (Wales) Act 2015 in terms of ensuring that the resulting impact is sustainable for future generations.

Changes to the manner in which the Authority determines its annual prudent amount of MRP should be fully considered by Council, and the changes included within the Authority's MRP policy. The Guidance makes it clear that such policies may be amended at any time.

If the Authority wishes to implement any of the changes discussed in this report Link can assist with drafting changes to the Authority's MRP policy.

3. Regulations & Guidance

3.1 Background

3.1.1 HRA

The provision for debt repayment relating to borrowing used to finance HRA capital expenditure is set out in the (Wales) General Determination of the Item 8 Credit and Item 8 Debit ("Item 8 Determination") made under section 75 of and schedule 4 to the Local Government and Housing Act 1989 for that year. The Item 8 Determination was made annually for each year until 2014/15.

Up until 2014/15 the Item 8 Determination specified that the HRA MRP was 2% or higher of the adjusted opening HRA capital financing requirement (the HRA credit ceiling prior to 2004/5). In 2014/15 the Item 8 Determination was amended to provide four options for the prudent provision for the repayment of debt in relation to the HRA. This 2015 Item 8 Determination applies to 2014/15 and future years, until such time a change in legislation policy or accounting matters requires an amendment to be made.

3.1.2 General Fund

For the General Fund the duty to make an annual charge in respect of outstanding capital debt liability was introduced by regulations 21 and 22 of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003. These regulations prescribed how much MRP an authority should charge its General Fund through a formula linked to the CFR. The originally specified annual amount was set at 4% of the opening (non-housing) element of the CFR for each financial year, less any specified adjustment in respect of previous housing debt liabilities, and Adjustment A.

This system was radically revised in 2008 by the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008, which shifted the emphasis from regulations to guidance. The revised system and accompanying guidance were issued in March 2008 and became effective from 1st April 2007, so that for 2007/08 and subsequent years, the prescriptive MRP calculation was replaced with a requirement that local authorities calculate a level of MRP they consider to be prudent. The Authority implemented the changes to the regulations in 2008/9 following the approval of new policies by the Council.

These regulations and supplementary WG MRP guidance therefore offer authorities significantly more discretion in deciding upon their annual amount of MRP. Statute (S.21 (1)(A) of LGA 2003) requires authorities to "have regard" to the Guidance and the recommendations within it.

In principle, an authority is now only required to make a **"prudent provision"** in respect of its ongoing MRP charge, and to arrange for its debt liability to be repaid over a similar period to that which the asset associated with the capital expenditure provides benefits or, in the case of borrowing supported by Revenue Support Grant ("RSG"), in line with the period implicit in the determination of that grant.

3.2 Current Guidance

The MRP guidance ("the Guidance") was updated in 2012 in order to clarify the position on PFI schemes and leases. Since then WG monitored the practices and principles used by local authorities when deciding how much MRP to charge, and as a result in November 2018 published further changes to the MRP guidance. The changes to the MRP guidance were driven in part by the 2016 National Audit Office ("NAO") value for money report on Local Authorities' Capital Investment and Financing, which was discussed at a Parliamentary Public Accounts committee meeting.

The current Guidance suggests that the calculation of MRP for the General Fund should be based on the residual CFR at the point the change in method is made, that any change in policy should not be applied retrospectively, and that any changes to the method of calculation resulting from a change in policy should not result in an authority making a reduced or nil charge in a current financial year on the grounds that it needs to recover overpayments of MRP relating to previous years.

However, the Guidance does allow local authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour. The Guidance also allows a local authority to offset a previous year's overpayment (i.e. Voluntary Revenue Provision made in excess of the amount due under the Authority's approved MRP policy) against the current year's prudent provision, so long as the total MRP charge is not less than zero.

Overall, the original statutory intent that it is for an authority to itself determine what represents a prudent annual amount of MRP, should figure significantly within an authority's annual determination in respect of this statutory liability.

The approach intended by the MRP Guidance is clearly to enable local circumstances and discretion to play a part, as the Guidance in general contains a set of suggestions or recommendations rather than representing a prescriptive process. The MRP Guidance has always made it clear that authorities can follow an alternative approach, provided they still make a prudent provision. Ultimately it is the statutory duty of the Authority to determine what represents a prudent provision, which it is suggested should always be carried out by full Council.

3.3 HRA Options Under the 2015 Item 8 Determination

For housing assets, the Guidance states that the "**duty to make MRP to cover borrowing or credit arrangements used to finance capital expenditure on housing assets remains unchanged from the current determinations**."

The 2015 Item 8 Determination is the latest determination, of which section 4 specifies:

Provision for debt repayments means as a minimum the cumulative amount calculated under any of the four options set out in Annex I. All four options are available for existing debt, the settlement amount and new expenditure incurred from 1 April 2015 until 1 April 2021 (the transitional period). For expenditure incurred from 1 April 2021 onwards, only options 3 and 4 are available. Authorities may make provision for debt repayments in addition to the amounts calculated under these four options.

The four options set out in Annex I of the Item 8 Determination for the provision of HRA debt repayment are as follows:

Option 1 – Regulatory Method

This option allows for the HRA MRP to be calculated as 2%, or such other higher percentage the authority may determine, of the adjusted opening HRA CFR (adjusted means the closing HRA CFR as at 31 March of the preceding financial year).

Where an authority has transferred HRA land and retained the debt in relation to that land, then the principal element of such debt outstanding on 1 April is deducted from the adjusted opening CFR.

Option 2 – CFR Method

MRP is equal to 2%, or other higher percentage as the authority may determine, of the HRA CFR as at 31 March of the preceding financial year.

Option 3 – Asset Life Method

MRP is determined by reference to the asset life, either by using the EIP method or the annuity method. When using the annuity method the authority should use an "appropriate" interest rate to calculate the amount. Both variations allow voluntary revenue provisions to be made and then make appropriate reductions in later years.

This option states that the estimated life of the asset should be determined in the year that MRP commences and should not be subsequently revised. It also allows for MRP to be deferred until the financial year following the year that the asset becomes operational.

This option also limits the life of freehold land to 50 years unless the building or structure constructed upon it has a greater life.

Option 4 – Depreciation Method

MRP is equal to the depreciation provision, including impairments and revaluations chargeable to the HRA Income and Expenditure Statement.

3.4 General Fund Recommended Options Under the MRP Guidance

The Guidance recommends four options for the calculation of the General Fund provision:

Option 1 - Regulatory Method

This option allows MRP to be based on the same formula used in the previous regulations (Regulation 28), namely 4% of the adjusted CFR (i.e. adjusted for Adjustment A, the HRA CFR or any other adjustments emanating from statutory instruments to the 2003 regulations). This method should only be adopted for an authority's historic debt liability as at 31 March 2008 or for new "supported" capital expenditure applied within the year. It is important to note that the Guidance states that this option may be used for new "supported" capital expenditure after 1st April 2008 but does not have to be. It is open to the Authority to decide whether an alternative option is considered more appropriate for any financial year.

Option 2 – CFR Method

This is a simplified version of Option 1, which provides for MRP to be calculated solely on the non-housing element of the CFR. It therefore ignores any adjustment to the CFR for Adjustment A. For most authorities this method would probably result in a higher level of provision than that under Option 1, although it is a more simplistic approach technically.

Option 3 – Asset Life Method

Under this option MRP is aligned to the estimated life of the asset for which the underlying need to borrow is undertaken. This method is suggested for all new "unsupported" borrowing but can, if desired, be applied for "supported" borrowing as well. The charge is recommended to be applied either on a straight line basis or by using the annuity method. The annuity method is intended to have the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

The Guidance recommends that whatever period is chosen at the outset must remain as the chosen life period. Informal commentary to the guidance states only that such provision should be made "over a period bearing some relation to that over which the asset continues to provide a service".

Significantly, under option 3 (and option 4), MRP does not have to be charged until the financial year following that in which the asset is completed and becomes operational.

Option 4 – Depreciation Method

This option is a more complex version of option 3. MRP is matched to the provision for depreciation, or appropriate proportion thereof, for the associated asset based on standard accounting practice. It therefore takes into consideration the residual value of an asset as well as any revaluations and impairments. MRP should continue to be made annually until the cumulative amount of the provision is equal to the expenditure originally financed by borrowing.

3.5 Differences in the Options

The HRA options are very similar to the General Fund options, with the following main differences:

- **HRA MRP is 2% of the CFR for options 1 and 2 as opposed to 4% for the General Fund;**
- **For the HRA, it is specifically set out that all four options are available for all debt (although for expenditure incurred from 1 April 2021 onwards only options 3 and 4 are available);**
- **The HRA options are provided under a Statutory Determination whereas the General Fund options are provided under Statutory Guidance.**

3.6 Other Matters Covered by the Guidance

The Guidance also requires authorities to prepare an annual statement of their policy on making MRP for submission to their full Council (or closest equivalent level) for scrutiny and approval before the start of the financial year. The original statement may be revised during the year by the full Council or the appropriate body of Members where required.

3.7 Prudence

Paragraph 11 of the Guidance states:

*" that the broad aim of prudent repayment is to ensure that the cost of debt is charged to a revenue account over a period that is **reasonably commensurate with that over which the capital expenditure provides benefits**."*

A consideration when exercising the judgement and application of what is prudent is when the **benefits of the asset are being consumed / used by the community**.

A key question when considering this aspect is whether it is prudent financial management for tax payers not to bear too high a cost of a debt liability where the benefits of those assets will be consumed over a longer period. For example buildings may well have a 50 year expected economic life and be depreciated over 50 years and therefore the debt liability should also be charged over a similar period.

Paragraph 12 of the Guidance suggests that in the case of borrowing supported by the WG RSG, the meaning of prudent provision is to put funds aside over a period commensurate with the period implicit in the determination of grant. The Guidance does state however that "Commensurate is not intended to require exactly the same period as in the determination of the grant".

Paragraph 13 of the Guidance states that alternative options differing from those set out as option 1-4 in 3.3 above are not ruled out from being used by a local authority should it decide that it is more appropriate.

Therefore whilst there are provisions within the Guidance which provide options on application, neither the Guidance nor legislation defines what is prudent. It is therefore for each Authority to manage this appropriately and to determine prudent repayment based on its own individual circumstances, taking into account medium / long term financial plans, current budgetary pressures, the Authority's current and future capital expenditure plans and funding needs and any longer term transformational plans.

3.8 The Well-being of Future Generations (Wales) Act 2015

The importance of balancing short term needs with the need to safeguard the ability to meet longer term needs is a key requirement of the Act in ensuring that its decisions are sustainable for future generations.

Any change in MRP policy needs to comply with this requirement.

4. Current Policy

4.1 The Authority's MRP Policy

The Authority undertook a review of its MRP and amended its policy in 2017/18. The methodology applied has continued to date with the MRP policy for 2020/21 as follows:

- **For capital expenditure incurred between 1 April 2008 and 31 March 2018, financed from supported borrowing, the MRP policy will be to charge MRP on the Equal Instalment method, Asset Life basis over 50 years. The MRP on capital expenditure funded from unsupported borrowing during this period has already been charged using the Equal Instalment Asset Life basis using the estimated lives of the assets, based on information available at that time. This change in policy realigns the MRP policies for assets funded from supported borrowing and assets funded by unsupported borrowing.**

- **From 1 April 2018 for all supported and unsupported borrowing (including PFI and finance leases), the MRP policy will also be the Equal Instalment method, asset life basis. However the estimated life periods will be set by the s151 Officer based on advice received from the relevant officers and will have regard to Welsh Government guidance in relation to MRP and asset lives. Where land is purchased, the asset life will be based on the asset life of the asset placed on the land, which in the majority of cases will be 50 years in line with the asset life for buildings.**

- **MRP charges based on asset life would not be charged until the year the asset becomes operational. The s151 Officer may postpone the MRP charge until the financial year following the one in which the asset becomes operational. The estimated useful life of the asset would be determined in the year the MRP commences and would not change over the life of the asset.**

- **As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis, which most reasonably reflects the anticipated period of benefit that arises from the expenditure. In addition, whatever type of expenditure in involved, it will be grouped together in a manner which reflects the nature on the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.**

- **The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.**

- **The HRA share of the CFR is subject to a 2% MRP charge, based upon the closing CFR for the previous year, in line with the approved 30 year business plan.**

- **Any repayments included in annual PFI or finance leases are applied as MRP and will be consistent with the asset life basis over the life of the lease or PFI scheme.**

4.2 CFR Position

Link has used the audited CFR position as at 31 March 2020 as shown in the table below as the basis for the proposed options within this report.

Table 3 –Audited CFR position as at 31 March 2020

	2019/20 £'000
GF - Supported Borrowing	70,949
GF - Unsupported Borrowing	24,381
Loan	1,573
Total General Fund	**96,903**
HRA - Supported Borrowing	11,471
HRA - Unsupported Borrowing	28,528
Total HRA	**39,999**
Closing CFR as at 31st March	**136,904**

5. Alternative Approaches - HRA

5.1 OPTION 1: Annuity Method for HRA Supported Borrowing

The Authority currently makes MRP for HRA supported borrowing on a reducing balance basis at 2% (option 2 in the Item 8 Determination). It could choose instead to make MRP for this element of its CFR on an annuity basis under option 3 of the Item 8 Determination.

5.1.1 HRA - Asset Lives

The 2% reducing balance basis means that the MRP charge continues indefinitely and the balance is never fully cleared. The CFR balance for HRA supported borrowing remaining under the current method after 60 years is £3.5m, which is equivalent to 30% of the current outstanding balance. Any annuity method using a period of under 60 years will have cleared the CFR balance in a significantly shorter timeframe and can therefore be argued as being more prudent than the current method.

This approach also demonstrates consideration of the Wellbeing of Future Generations (Wales) Act 2015, as future generations are relieved of the debt burden over a shorter period of time and are not left having to carry that burden over hundreds of years.

5.1.2 HRA - Annuity Interest Rates

The annuity method requires the use of an “appropriate interest rate” to calculate the MRP charge over the life of the asset. There are various different approaches which can be used in determining an appropriate interest rate, including PWLB rates, the Authority’s average rate of borrowing, and interest rates used for the HRA share of interest on external borrowing.

The table below shows that the average interest rate used for the calculation of HRA interest in the Item 8 Debit for 2019/20 was **4.34%.**

Table 4 – Interest rates used for the calculation of HRA interest 2019/20

	£m	%
Total CFR as at 31/3/2019 (a)	138,662	
HRA CFR as at 31/3/2019 (b)	40,816	
% HRA CFR to Total CFR (c = b/a)		29.44
Total Interest Payable 2019/20 (d)	6,024	
Total Item 8 Debit Interest 2019/20 (e = d x c)	1,773	
Average rate used for HRA (e/b)		4.34

Source: Authority wp: item 8 19.20 (hra int rate).xls

An alternative option would be to use the 50 year+ PWLB annuity loan rate, which was **2.79%** at April 2020 (PWLB notice no. 129/20).

Link is aware of other authorities that have used their average rate of borrowing in the annuity calculation. It could be plausible therefore to use the **4.53%** quoted in the Authority's working papers[1] as the average rate of debt at the end of 2019/20.

5.1.3 HRA – Option 1 Impact

It seems reasonable, considering the asset lives and rates discussed above to use the following asset lives and annuity rates for HRA supported borrowing:

- **Asset lives of 50, 55 or 60 years**
- **Annuity rate of 2.79% or 4.34%**

These have been applied to the CFR balance relating to HRA supported borrowing as at 31 March 2020 of **£11.471m,** as stated in the Authority's working papers.

The impact of the above options over the first 5 years is shown in the table below, along with the whole life NPV. Full calculations are provided in Appendix A.

Table 5 – First 5 years impact of switching to annuity basis (Supported Borrowing)

		OPTION 1a Annuity 55 years @ 2.79%		OPTION 1b Annuity 50 years @ 4.34%		OPTION 1c Annuity 55 years @ 4.34%		OPTION 1d Annuity 60 years @ 4.34%	
Year	Original charge £'000	Revised charge £'000	(Saving) / Cost £'000	Revised charge £'000	(Saving) / Cost £'000	Revised charge £'000	(Saving) / Cost £'000	Revised charge £'000	(Saving) / Cost £'000
2020/21	229	90	(139)	68	(162)	53	(176)	42	(187)
2021/22	225	93	(132)	71	(154)	56	(169)	44	(181)
2022/23	220	95	(125)	74	(147)	58	(162)	46	(174)
2023/24	216	98	(118)	77	(139)	61	(155)	48	(168)
2024/25	212	101	(111)	80	(132)	63	(148)	50	(162)
5 year TOTAL			**(625)**		**(734)**		**(812)**		**(872)**
Whole life NPV			**(161)**		**(164)**		**(621)**		**(1,035)**

5.2 OPTION 2: Annuity Method for HRA Unsupported Borrowing

MRP for HRA unsupported borrowing is also currently made on a reducing balance basis at 2% (option 2 in the Item 8 Determination). The Authority could consider applying the annuity method to this element of its CFR instead.

[1] *Pwlbos310320average rate*

5.2.1 HRA - Asset Lives

The CFR balance for HRA unsupported borrowing remaining under the current 2% reducing balance method after 60 years is £8.7m, which is equivalent to 30% of the current outstanding balance. As discussed in 5.1.1 above, any annuity method using a period of under 60 years will therefore clear the CFR balance in a significantly shorter timeframe and can therefore be argued as being more prudent than the current method.

5.2.2 HRA - Annuity Interest Rates

As discussed in section 5.1.2, the annuity interest rate used should be appropriate, and could reasonably be based on PWLB rates, interest rates used for the HRA share of external borrowing or the Authority's average rate of borrowing.

5.2.3 HRA – Option 2 Impact

The calculations that follow for unsupported borrowing therefore use the following annuity inputs:

- **Asset life of 50, 55 or 60 years**
- **Annuity rate of 2.79% or 4.34%**

These have been applied to the CFR balance relating to HRA unsupported borrowing as at 31 March 2020 of **£28.528m,** as stated in the Authority's working papers.

The impact of the above options over the first 5 years is shown in the table below, along with the whole life NPV. Full calculations are provided in Appendix B.

Table 6 – First 5 years impact of switching to annuity basis (Unsupported Borrowing)

		OPTION 2a		OPTION 2b		OPTION 2c		OPTION 2d	
		Annuity 55 years @ 2.79%		Annuity 50 years @ 4.34%		Annuity 55 years @ 4.34%		Annuity 60 years @ 4.34%	
Year	**Original charge £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**
2020/21	571	225	(346)	168	(402)	132	(438)	105	(466)
2021/22	559	231	(328)	175	(384)	138	(421)	110	(450)
2022/23	548	237	(311)	183	(365)	144	(404)	114	(434)
2023/24	537	244	(293)	191	(346)	150	(387)	119	(418)
2024/25	526	251	(275)	199	(327)	157	(369)	124	(402)
5 year TOTAL			**(1,553)**		**(1,824)**		**(2,019)**		**(2,169)**

Whole life NPV	**(400)**		**(409)**		**(1,545)**		**(2,574)**	

6. Alternative Approaches – General Fund

For the General Fund, the Statutory Guidance identifies that the broad aim of prudent repayment is to require local authorities to put aside revenue over time to cover their CFR and the period over which this is done should align with one that is **reasonably commensurate with the period over which their capital expenditure provides benefits.** This is an important point to consider in the judgement and application of what is prudent.

Whilst there are provisions within the Statutory Guidance which provide options on application, neither the Guidance nor legislation defines what is prudent. Additionally, paragraph 13 of the Guidance states that alternative options differing from those set out as option 1-4 are not ruled out from being used by a local authority should it decide that it is more appropriate. It is therefore for each authority to manage this appropriately and to determine prudent repayment based on its own individual circumstances.

In considering the most appropriate options for the Authority, Link has observed the Guidance in terms of taking a balanced view by considering the complete provisions on the overriding principles of prudence, financial management and financial sustainability of the Authority. The potential approaches identified are set out below.

6.1 OPTION 3: Annuity Method for Historic / Supported Borrowing

The Authority currently makes MRP for supported borrowing and borrowing pre 1st April 2008 on a straight-line basis at 2% (i.e. over 50 years) for the General Fund. It could choose instead to make MRP for this element of its CFR on an annuity basis.

CIPFA puts forward the following rationale for using the annuity method in CIPFA's 'The Practitioner's Guide to Capital Finance in Local Government' (2019) which states:

> 'The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now.
>
> The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due.
>
> The annuity method would then be a prudent basis for providing for assets that provided a steady flow of benefits over their useful life.'

6.1.1 Revised Calculations

A revised MRP calculation has been applied going forwards for pre-2008 & supported borrowing using the annuity method for the General Fund. This has been applied to the CFR balance relating to historic / supported borrowing as at 31 March 2020 of **£70.949m,** as stated in the Authority's working papers.

A life of **50 years** has been used as this is equivalent to the 2% straight-line charge currently being applied.

An alternative life of **48 years** has also been modelled, as the 50 year straight-line method commenced on 1 April 2018, therefore 48 years reflects the remaining life as at 1 April 2020 for the majority of supported borrowing.[2]

As discussed in section 5.1.2, the annuity interest rate used should be appropriate, and could reasonably be based on PWLB rates, the Authority's average rate of borrowing or an alternative rate.

The PWLB rate for a 50 year annuity loan on 1 April 2020 was **2.79%** and for a 48 year annuity loan was **2.80%** (PWLB notice no. 129/20), .

The Authority's average borrowing rate for 2019/20 was **4.53%** as quoted in the Authority's working papers as the average rate of debt at the end of 2019/20.

The following asset lives and annuity rates have therefore been applied for GF supported borrowing:

- **50 years and 48 years**
- **Annuity rate of 2.79%, 2.80% or 4.53%**

The impact of the above options over the first 5 years is shown in the table below, along with the whole life NPV. Full calculations are provided in Appendix C.

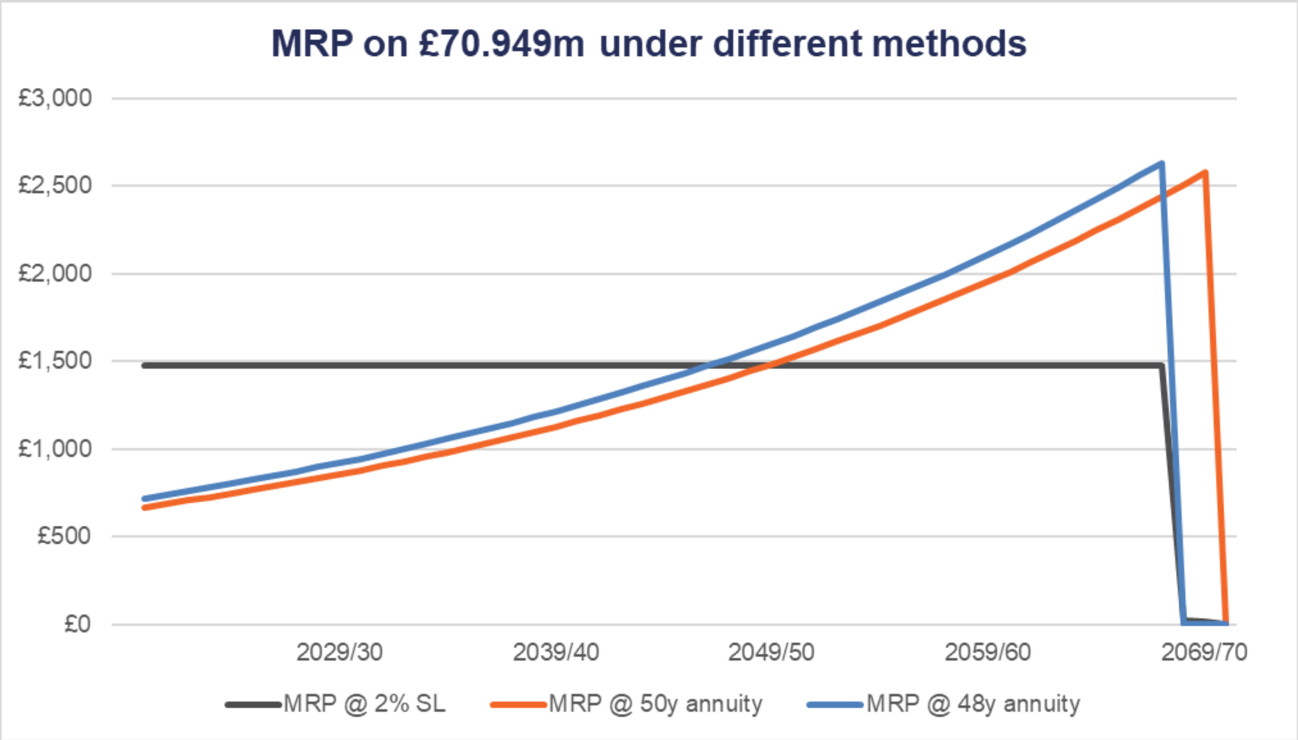
Table 7 – First 5 years impact of switching to annuity basis (Supported Borrowing)

		OPTION 3a Annuity 50 years @ 2.79%		OPTION 3b Annuity 50 years @ 4.53%		OPTION 3c Annuity 48 years @ 2.8%		OPTION 3d Annuity 48 years @ 4.53%	
Year	**Original charge £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**
2020/21	1,477	669	(808)	394	(1,084)	719	(759)	435	(1,042)
2021/22	1,477	688	(790)	412	(1,066)	739	(738)	455	(1,022)
2022/23	1,477	707	(770)	430	(1,047)	759	(718)	475	(1,002)
2023/24	1,477	727	(751)	450	(1,028)	781	(696)	497	(980)
2024/25	1,477	747	(730)	470	(1,007)	803	(675)	520	(958)
5 year TOTAL			**(3,849)**		**(5,231)**		**(3,586)**		**(5,004)**
Whole life NPV			**(6,679)**		**(9,628)**		**(5,576)**		**(8,411)**

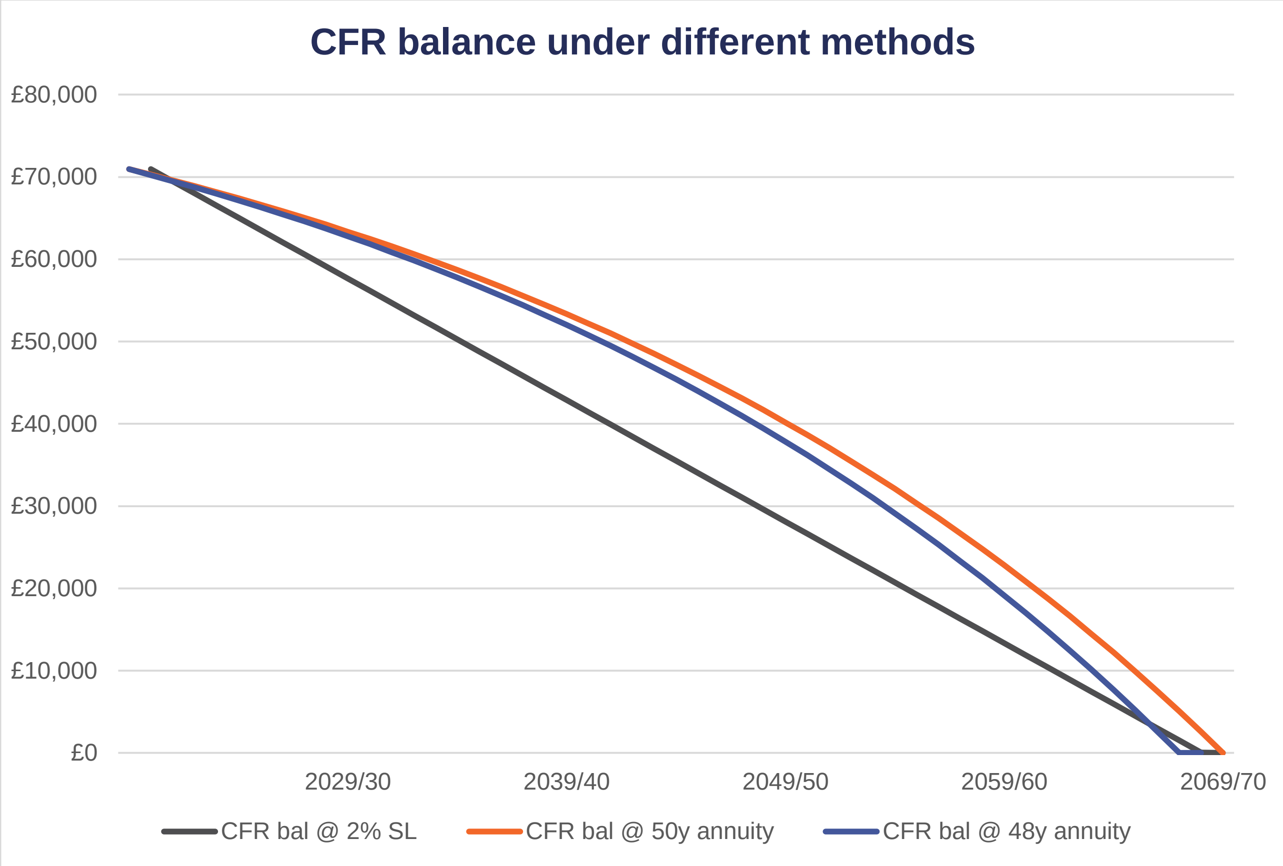
The following two graphs illustrate the difference in annual MRP and outstanding CFR balance each year on the existing 2% straight-line basis compared to a 50 year and 48 year annuity basis (using PWLB rates) for the Authority's £70.949m supported debt balance as at 1 April 2020.

[2] New supported borrowings taken out since 1 April 2018 total £1.218m which will have a slightly longer life than 48 years.

Graph 1: Difference in MRP for alternative methods



Graph 2: Movement in CFR balance for alternative methods



It is important to note that such an adjustment to MRP will lead to a higher CFR and borrowing requirement than under the Authority's current MRP policy.

As well as the benefit illustrated above, this also has a cost for the Authority if the revenue released from this adjustment is spent. All other things being equal, when the amount previously set aside to reduce the debt liability is used for another revenue purpose, the Authority will have less cash. Depending on the Authority's current balance sheet position, this could lead to a reduction in external investments and with this a reduction in interest income.

6.2 OPTION 4: Annuity Method for Unsupported Borrowing

The Authority currently uses the asset life equal instalments ("EIP") methodology for MRP on its unsupported borrowing for the General Fund; this is in line with option 3 in the MRP Guidance. An asset life is determined for each item of capital expenditure financed by unsupported borrowing and a calculation of MRP is carried out for each individual item on an EIP basis. It could choose instead to make MRP for this element of its CFR on an annuity basis, as discussed in 6.1 above for supported borrowing.

There are several ways in which this approach could be adopted by the Authority, each of which is discussed below:

- **Applying an annuity approach to individual projects from 1 April 2020**
- **Applying an average life annuity approach from 1 April 2020.**

6.2.1 Annuity Approach Individual Projects

The Authority could chose to provide MRP on its unsupported borrowing at an individual project level, in a similar way that it currently calculates MRP, except using an annuity approach to calculate the MRP charge for each individual project.

The CFR balance outstanding as at 31st March 2020 and the remaining life outstanding for each project is used and an annuity interest rate applied in order to calculate the MRP charge. The annuity interest rate used should be an "appropriate interest rate" and could be either:

- **The Authority's average rate of borrowing (4.53%), applied to all projects, or**
- **The PWLB annuity rate as at 1 April 2020 for the lives outstanding at individual project level**

6.2.2 Revised Calculations

A revised MRP calculation has been applied going forwards for unsupported borrowing using an **annuity approach for individual projects**, applied to the unsupported borrowing CFR balance as at 31 March 2020 for each project based on:

- **Life outstanding for each individual project as at 31 March 2020**
- **Annuity rate of 4.53% or PWLB annuity rate applicable for the life outstanding as at 1 April 2020.**

The impact of the above options over the first 5 years is shown in the table below, along with the whole life NPV. Full calculations are provided in Appendix D.

Table 8 – First 5 years impact of switching to annuity basis at individual project level (Unsupported Borrowing)

		OPTION 4a		OPTION 4b	
		Annuity Life outstanding individual projects @ 4.53%		Annuity Life outstanding individual projects @ PWLB annuity rate	
Year	**Original charge £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**	**Revised charge £'000**	**(Saving) / Cost £'000**
2020/21	1,019	604	(415)	758	(261)
2021/22	1,019	632	(388)	776	(243)
2022/23	1,019	660	(359)	794	(225)
2023/24	1,019	690	(329)	813	(207)
2024/25	979	677	(303)	790	(190)
5 year TOTAL			**(1,794)**		**(1,126)**

Whole life NPV			**(1,804)**		**(1,153)**

6.2.3 Average Life Annuity Approach

A prudent option needs to ensure that the MRP repayment period is reasonably commensurate with the period over which the capital expenditure provides benefits. An alternative simplified method has therefore been looked at that uses an **average asset life** for all unsupported borrowing in each year and applies the annuity calculation to the total unsupported borrowing capital expenditure for that year, rather than to individual projects.

We are aware that this methodology is being used by some English Authorities and most Scottish Authorities.

In 2012/13 the Welsh Government introduced the Local Government Borrowing Initiative ("LGBI") that enabled local authorities to borrow to invest in highways enhancements over a three year period. Funding to meet the associated borrowing costs was included in the RSG mechanism over a period of 20 years. The LGBI was also extended to support funding of local authorities' 21st century schools programme for which funding to support the associated borrowing costs was included in the RSG over a period of 30 years.

As support is being provided for the borrowing costs of LGBI through the RSG, then strictly speaking the LGBI projects are not "unsupported". Options have, however, been included within this section of the report for MRP on these projects as the capital expenditure is on the same type of assets as for unsupported borrowing i.e. schools and infrastructure.

6.2.4 General Fund - Asset Lives

Following the general accounting principles of matching and consistency it is considered appropriate that the asset life used in the MRP calculation reflects the Useful Economic Life (UEL) used when calculating depreciation in the statutory annual accounts, unless it is considered imprudent to do so.

When reviewing this aspect authorities may also wish to assess if the categories and lives used are appropriate and relevant.

The Authority's statutory annual accounts depreciation policy states that depreciation is calculated using the following asset lives:

Table 9 – Depreciation policy: asset lives

Asset Category	Depreciation Policy	Useful Lives
Dwellings and other buildings	Straight line allocation over periods as estimated by the valuer	up to 75 years
Vehicles, plant & equipment	Straight line allocation	5-15 years
Infrastructure	Straight line allocation	up to 30 years

The Authority's unsupported borrowing largely consists of expenditure on schools as part of its 21st century schools' programme. The asset life allocated to schools in the MRP calculation is 50 years.

The MRP lives outstanding at 31st March 2020 on unsupported borrowing have been reviewed which confirms that the weighted average life outstanding (excluding equal pay) is **35 years**, as shown in the following table:

Table 10 – Weighted average outstanding asset lives

Asset Category	Balance as at 31 March 2020 £'000	Average Life outstanding as at 31 March 2020 years
Schools	11,427	48
Highways	1,870	21
Waste Management	405	17
Equipment	295	6
Total Other	13,996	43
LGBI - Schools	2,957	14
LGBI - Highways	3,765	24
Total LGBI	6,722	18
Total Unsupported excluding Equal Pay	**20,718**	**35**
Total Equal Pay	3,793	20
Total Unsupported	**24,511**	**32**

Note: Equal Pay has been excluded from the average asset life calculation, and in the Link modelling continues to be written down over the original asset life allocated. This is because the MRP Guidance specifies the maximum life for expenditure capitalised by virtue of a direction under s16(2)(b) should be 20 years.

6.2.5 General Fund - Annuity Interest Rates

Similar to the HRA, the MRP Guidance for the General Fund merely states that the Authority should use an “appropriate interest rate” within their calculations. The Authority could therefore consider using an alternative rate if it wished, provided that the methodology used is consistent.

The Authority could use the 35 year PWLB annuity loan rate, which was **2.72%** on 1 April 2020 (PWLB notice no. 129/20).

Alternatively, the Authority’s average borrowing rate could be used, being **4.53%** as quoted in the Authority’s working papers as the average rate of debt at the end of 2019/20.

6.2.6 Revised Calculations

A revised MRP calculation has been applied going forwards for unsupported borrowing using an **average approach**, applied to the unsupported borrowing CFR balance as at 31 March 2020 of **£24.511m**[3] based on:

- **35 years**
- **Annuity rate of 2.72% or 4.53%**

The impact of the above options over the first 5 years is shown in the table below, along with the whole life NPV. Full calculations are provided in Appendix D.

Table 11 – First 5 years impact of switching to average life annuity basis (Unsupported Borrowing)

		OPTION 4c		OPTION 4d	
		Annuity 35 years @ 4.53%		Annuity 35 years @ 2.72%	
Year	Original charge £'000	Revised charge £'000	(Saving) / Cost £'000	Revised charge £'000	(Saving) / Cost £'000
2020/21	1,019	379	(640)	519	(500)
2021/22	1,019	396	(623)	532	(487)
2022/23	1,019	414	(605)	546	(473)
2023/24	1,019	433	(586)	560	(459)
2024/25	979	453	(527)	575	(404)
5 year TOTAL			**(2,981)**		**(2,323)**
Whole life NPV			**(2,324)**		**(1,639)**

[3] *The CFR balance for GF unsupported borrowing as at 31 March 2020 per the Authority’s working papers is £24.381m, a difference of £130k. This relates to the actual MRP charge made in 2014/15 being £134k (rounding) higher than that reflected within the MRP charge write down working papers. This was manually adjusted in the working papers in subsequent years. Using the CFR balance of £24.381m in the Authority’s unsupported borrowing working papers going forward will result in £130k too much being written down, using the methodology above. If an average approach is adopted by the Authority this sum can be deducted from the opening balance used in the working papers as at 1 April 2020. If projects are retained at an individual level, then the Authority will need to deduct this balance from one of those individual projects.*

7. Net Present Value Comparison

In order to compare the options presented in sections 5 and 6, a Net Present Value (NPV) has been calculated over the entire period of MRP repayments. An overall negative NPV figure implies that taking into account the time value of money, the option represents a lower overall MRP charge compared to the current MRP write down schedule (even though the actual repayments are the same in total). HM Treasury suggest using a discount rate of 3.5% for this purpose. The impact of each option on an NPV basis is shown in the tables below:

Table 12 – Summary of HRA MRP options: NPV at 3.5%

	OPTION 1 - Annuity on Supported Borrowing				OPTION 2 - Annuity on Unsupported Borrowing			
Years	(1a) 55 years @ 2.79% *Appendix A* £'000	(1b) 50 years @ 4.53% *Appendix A* £'000	(1c) 55 years @ 4.34% *Appendix A* £'000	(1d) 60 years @ 4.34% *Appendix A* £'000	(2a) 55 years @ 2.79% *Appendix B* £'000	(2b) 50 years @ 4.34% *Appendix B* £'000	(2c) 55 years @ 4.34% *Appendix B* £'000	(2d) 60 years @ 4.34% *Appendix B* £'000
2020/21	(134)	(156)	(170)	(181)	(334)	(389)	(423)	(450)
Years 2 to 5	(432)	(508)	(565)	(609)	(1,074)	(1,264)	(1,405)	(1,513)
Years 6 to 10	(343)	(413)	(486)	(543)	(852)	(1,027)	(1,209)	(1,350)
Years 11 to 25	(186)	(227)	(465)	(649)	(462)	(564)	(1,156)	(1,613)
Years 26 to 40	455	674	405	197	1,132	1,676	1,007	490
Years 41 onwards	478	466	660	749	1,189	1,160	1,641	1,862
Total	(161)	(164)	(621)	(1,035)	(400)	(409)	(1,545)	(2,574)

Table 13 – Summary of General Fund MRP options: NPV at 3.5%

	OPTION 3 - Annuity on Supported Borrowing				OPTION 4 - Annuity on Unsupported Borrowing			
Years	(3a) 50 years @ 2.79% *Appendix C* £'000	(3b) 50 years @ 4.53% *Appendix C* £'000	(3c) 48 years @ 2.80% *Appendix C* £'000	(3d) 48 years @ 4.53% *Appendix C* £'000	(4a) Project life outstanding @ 4.53% *Appendix D* £'000	(4b) Project life outstanding @ PWLB rate *Appendix D* £'000	(4c) 35 years @ 4.53% *Appendix D* £'000	(4d) 35 years @ 2.72% *Appendix D* £'000
2020/21	(781)	(1,047)	(733)	(1,007)	(401)	(252)	(618)	(483)
Years 2 to 5	(2,701)	(3,683)	(2,512)	(3,519)	(1,227)	(770)	(2,081)	(1,621)
Years 6 to 10	(2,536)	(3,577)	(2,305)	(3,363)	(790)	(510)	(1,749)	(1,354)
Years 11 to 25	(3,432)	(5,303)	(2,777)	(4,592)	(58)	(74)	464	634
Years 26 to 40	583	641	1,187	1,466	258	206	2,081	1,606
Years 41 onwards	2,187	3,341	1,563	2,603	414	246	(420)	(420)
Total	(6,679)	(9,628)	(5,576)	(8,411)	(1,804)	(1,153)	(2,324)	(1,639)

The total combined maximum NPV for the HRA and General Fund is **£15.5m** (being options 1d,2d,3b and 4c).

8. Disclaimer

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9. Appendices

Appendix A	OPTION 1 HRA – Supported switch to annuity
Appendix B	OPTION 2 HRA – Unsupported switch to annuity
Appendix C	OPTION 3 GF – Historic / Supported switch to annuity
Appendix D	OPTION 4 GF – Unsupported switch to annuity

APPENDIX A: OPTION 1 HRA – Supported switch to annuity

		OPTION 1a			OPTION 1b			OPTION 1c			OPTION 1d		
		55 years @ 2.79%			50 years @ 4.34%			55 years @ 4.34%			60 years @ 4.34%		
Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000	Revised repayments £'000	(Reduction) / cost £'000	NPV £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2020/21	229	90	(139)	(134)	68	(162)	(156)	53	(176)	(170)	42	(187)	(181)
2021/22	225	93	(132)	(123)	71	(154)	(144)	56	(169)	(158)	44	(181)	(169)
2022/23	220	95	(125)	(113)	74	(147)	(132)	58	(162)	(146)	46	(174)	(157)
2023/24	216	98	(118)	(103)	77	(139)	(121)	61	(155)	(135)	48	(168)	(146)
2024/25	212	101	(111)	(93)	80	(132)	(111)	63	(148)	(125)	50	(162)	(136)
2025/26	207	104	(104)	(84)	84	(124)	(101)	66	(142)	(115)	52	(155)	(126)
2026/27	203	107	(97)	(76)	87	(116)	(91)	69	(135)	(106)	54	(149)	(117)
2027/28	199	110	(90)	(68)	91	(108)	(82)	72	(127)	(97)	57	(142)	(108)
2028/29	195	113	(83)	(61)	95	(100)	(74)	75	(120)	(88)	59	(136)	(100)
2029/30	191	116	(76)	(54)	99	(92)	(65)	78	(113)	(80)	62	(129)	(92)
2030/31	187	119	(68)	(47)	103	(84)	(58)	81	(106)	(73)	65	(123)	(84)
2031/32	184	122	(61)	(41)	108	(76)	(50)	85	(99)	(65)	67	(116)	(77)
2032/33	180	126	(54)	(35)	113	(68)	(43)	89	(91)	(58)	70	(110)	(70)
2033/34	176	129	(47)	(29)	117	(59)	(36)	93	(84)	(52)	73	(103)	(64)
2034/35	173	133	(40)	(24)	123	(50)	(30)	97	(76)	(46)	77	(96)	(58)
2035/36	169	137	(33)	(19)	128	(42)	(24)	101	(69)	(40)	80	(90)	(52)
2036/37	166	140	(26)	(14)	133	(33)	(18)	105	(61)	(34)	83	(83)	(46)
2037/38	163	144	(19)	(10)	139	(24)	(13)	110	(53)	(29)	87	(76)	(41)
2038/39	159	148	(11)	(6)	145	(14)	(7)	114	(45)	(23)	91	(69)	(36)
2039/40	156	152	(4)	(2)	152	(5)	(2)	119	(37)	(19)	95	(62)	(31)
2040/41	153	157	3	2	158	5	2	125	(29)	(14)	99	(54)	(26)
2041/42	150	161	11	5	165	15	7	130	(20)	(9)	103	(47)	(22)
2042/43	147	166	18	8	172	25	11	136	(11)	(5)	107	(40)	(18)
2043/44	144	170	26	11	180	35	16	142	(3)	(1)	112	(32)	(14)
2044/45	141	175	34	14	187	46	19	148	6	3	117	(24)	(10)
2045/46	138	180	41	17	195	57	23	154	16	6	122	(16)	(7)
2046/47	136	185	49	19	204	68	27	161	25	10	127	(8)	(3)
2047/48	133	190	57	22	213	80	30	168	35	13	133	(0)	(0)
2048/49	130	195	65	24	222	92	34	175	45	16	139	8	3
2049/50	128	201	73	26	232	104	37	183	55	20	145	17	6
2050/51	125	206	81	28	242	117	40	191	65	23	151	26	9
2051/52	123	212	89	30	252	130	43	199	76	25	158	35	12
2052/53	120	218	98	31	263	143	46	207	87	28	164	44	14
5053/54	118	224	106	33	275	157	49	216	99	31	172	54	17
2054/55	115	230	115	34	287	171	51	226	110	33	179	64	19
2055/56	113	237	124	36	299	186	54	236	123	36	187	74	21
2056/57	111	243	132	37	312	201	56	246	135	38	195	84	24
2057/58	109	250	141	38	325	217	59	257	148	40	203	95	26
2058/59	106	257	151	39	340	233	61	268	161	42	212	106	28
2059/60	104	264	160	40	354	250	63	279	175	44	221	117	30
2060/61	102	272	169	41	370	267	65	291	189	46	231	129	31
2061/62	100	279	179	42	386	286	67	304	204	48	241	141	33
2062/63	98	287	189	43	403	304	69	317	219	50	251	153	35
2063/64	96	295	199	44	420	324	71	331	235	52	262	166	37
2064/65	94	303	209	44	438	344	73	345	251	53	274	179	38
2065/66	92	312	219	45	457	365	75	360	268	55	286	193	40
2066/67	91	320	230	46	477	386	77	376	285	57	298	207	41
2067/68	89	329	241	46	498	409	78	392	304	58	311	222	43
2068/69	87	338	251	47	519	432	80	409	322	60	324	237	44
2069/70	85	348	263	47	542	457	82	427	342	61	338	253	45
years 51-300+	4,177	1,891	(2,286)	33	0	(4,177)	(272)	2,430	(1,747)	120	4,307	130	362
	11,471	11,471	(0)	(161)	11,471	(0)	(164)	11,471	(0)	(621)	11,471	(0)	(1,035)

APPENDIX C: OPTION 3 GF – Historic / Supported switch to annuity

		OPTION 2a			OPTION 2b			OPTION 2c			OPTION 2d		
		55 years @ 2.79%			50 years @ 4.34%			55 years @ 4.34%			60 years @ 4.34%		
Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000	Revised repayments £'000	(Reduction) / cost £'000	NPV £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2020/21	571	225	(346)	(334)	168	(402)	(389)	132	(438)	(423)	105	(466)	(450)
2021/22	559	231	(328)	(306)	175	(384)	(358)	138	(421)	(393)	110	(450)	(420)
2022/23	548	237	(311)	(280)	183	(365)	(329)	144	(404)	(364)	114	(434)	(391)
2023/24	537	244	(293)	(255)	191	(346)	(302)	150	(387)	(337)	119	(418)	(364)
2024/25	526	251	(275)	(232)	199	(327)	(275)	157	(369)	(311)	124	(402)	(338)
2025/26	516	258	(258)	(210)	208	(308)	(250)	164	(352)	(286)	130	(386)	(314)
2026/27	505	265	(240)	(189)	217	(289)	(227)	171	(334)	(263)	135	(370)	(291)
2027/28	495	272	(223)	(169)	226	(269)	(204)	178	(317)	(241)	141	(354)	(269)
2028/29	485	280	(205)	(151)	236	(249)	(183)	186	(299)	(220)	147	(338)	(248)
2029/30	476	288	(188)	(133)	246	(229)	(163)	194	(282)	(200)	154	(322)	(228)
2030/31	466	296	(170)	(117)	257	(209)	(143)	203	(264)	(181)	161	(306)	(209)
2031/32	457	304	(153)	(101)	268	(189)	(125)	211	(245)	(162)	167	(289)	(191)
2032/33	448	313	(135)	(86)	280	(168)	(107)	221	(227)	(145)	175	(273)	(175)
2033/34	439	321	(117)	(73)	292	(147)	(91)	230	(209)	(129)	182	(256)	(158)
2034/35	430	330	(100)	(60)	305	(125)	(75)	240	(190)	(113)	190	(240)	(143)
2035/36	421	339	(82)	(47)	318	(104)	(60)	251	(171)	(99)	199	(223)	(129)
2036/37	413	349	(64)	(36)	332	(81)	(45)	261	(152)	(84)	207	(206)	(115)
2037/38	405	359	(46)	(25)	346	(59)	(32)	273	(132)	(71)	216	(189)	(102)
2038/39	397	369	(28)	(15)	361	(36)	(18)	285	(112)	(58)	226	(171)	(89)
2039/40	389	379	(10)	(5)	377	(12)	(6)	297	(92)	(46)	235	(153)	(77)
2040/41	381	390	9	4	393	12	6	310	(71)	(35)	246	(135)	(66)
2041/42	373	400	27	13	410	37	17	323	(50)	(23)	256	(117)	(55)
2042/43	366	412	46	21	428	62	28	337	(29)	(13)	267	(99)	(45)
2043/44	359	423	65	28	447	88	39	352	(7)	(3)	279	(80)	(35)
2044/45	351	435	84	35	466	115	48	367	16	7	291	(60)	(26)
2045/46	344	447	103	42	486	142	58	383	39	16	304	(41)	(17)
2046/47	337	459	122	48	507	170	67	400	62	25	317	(21)	(8)
2047/48	331	472	142	54	529	199	76	417	86	33	331	(0)	(0)
2048/49	324	485	161	60	552	228	84	435	111	41	345	21	8
2049/50	318	499	181	65	576	259	92	454	137	49	360	42	15
2050/51	311	513	202	69	601	290	100	474	163	56	375	64	22
2051/52	305	527	222	74	627	322	107	494	189	63	392	87	29
2052/53	299	542	243	78	655	356	114	516	217	70	409	110	35
5053/54	293	557	264	82	683	390	121	538	245	76	427	134	41
2054/55	287	573	286	86	713	426	128	562	275	82	445	158	47
2055/56	281	589	307	89	743	462	134	586	305	88	464	183	53
2056/57	276	605	329	92	776	500	140	611	336	94	484	209	58
2057/58	270	622	352	95	809	539	146	638	368	100	506	235	64
2058/59	265	639	375	98	845	580	152	666	401	105	527	263	69
2059/60	259	657	398	100	881	622	157	695	435	110	550	291	73
2060/61	254	675	421	103	919	665	162	725	470	115	574	320	78
2061/62	249	694	445	105	959	710	167	756	507	120	599	350	83
2062/63	244	714	469	107	1,001	757	172	789	545	124	625	381	87
2063/64	239	734	494	109	1,044	805	177	823	584	129	652	413	91
2064/65	235	754	519	110	1,090	855	182	859	624	133	681	446	95
2065/66	230	775	545	112	1,137	907	186	896	666	137	710	480	99
2066/67	225	797	571	113	1,186	961	191	935	710	141	741	516	102
2067/68	221	819	598	115	1,238	1,017	195	976	755	145	773	552	106
2068/69	216	842	625	116	1,292	1,075	199	1,018	802	149	807	590	109
2069/70	212	865	653	117	1,348	1,136	203	1,062	850	152	842	630	113
years 51-300+	10,389	4,702	(5,686)	82	0	(10,389)	(676)	6,044	(4,345)	298	10,712	323	900
	28,528	28,528	0	(400)	28,528	0	(409)	28,528	0	(1,545)	28,528	0	(2,574)

APPENDIX C: OPTION 3 GF – Historic / Supported switch to annuity

		OPTION 3a			OPTION 3b			OPTION 3c			OPTION 3d		
		50 years @ 2.79%			50 years @ 4.53%			48 years @ 2.8%			48 years @ 4.53%		
Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000	Revised repayments £'000	(Reduction) / cost £'000	NPV £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2020/21	1,477	669	(808)	(781)	394	(1,084)	(1,047)	719	(759)	(733)	435	(1,042)	(1,007)
2021/22	1,477	688	(790)	(737)	412	(1,066)	(995)	739	(738)	(689)	455	(1,022)	(954)
2022/23	1,477	707	(770)	(695)	430	(1,047)	(944)	759	(718)	(647)	475	(1,002)	(904)
2023/24	1,477	727	(751)	(654)	450	(1,028)	(895)	781	(696)	(607)	497	(980)	(854)
2024/25	1,477	747	(730)	(615)	470	(1,007)	(848)	803	(675)	(568)	520	(958)	(806)
2025/26	1,477	768	(710)	(577)	491	(986)	(802)	825	(652)	(531)	543	(934)	(760)
2026/27	1,477	789	(688)	(541)	514	(964)	(757)	848	(629)	(494)	568	(910)	(715)
2027/28	1,477	811	(666)	(506)	537	(940)	(714)	872	(605)	(460)	593	(884)	(671)
2028/29	1,477	834	(643)	(472)	561	(916)	(672)	896	(581)	(426)	620	(857)	(629)
2029/30	1,477	857	(620)	(440)	587	(891)	(631)	921	(556)	(394)	648	(829)	(588)
2030/31	1,477	881	(596)	(408)	613	(864)	(592)	947	(530)	(363)	678	(800)	(548)
2031/32	1,477	906	(572)	(378)	641	(836)	(553)	974	(503)	(333)	708	(769)	(509)
2032/33	1,477	931	(546)	(349)	670	(807)	(516)	1,001	(476)	(304)	740	(737)	(471)
2033/34	1,477	957	(520)	(322)	700	(777)	(480)	1,029	(448)	(277)	774	(703)	(434)
2034/35	1,477	983	(494)	(295)	732	(745)	(445)	1,058	(419)	(250)	809	(668)	(399)
2035/36	1,477	1,011	(466)	(269)	765	(712)	(411)	1,088	(390)	(225)	846	(632)	(364)
2036/37	1,477	1,039	(438)	(244)	800	(677)	(377)	1,118	(359)	(200)	884	(593)	(331)
2037/38	1,477	1,068	(409)	(220)	836	(641)	(345)	1,149	(328)	(177)	924	(553)	(298)
2038/39	1,477	1,098	(379)	(197)	874	(603)	(314)	1,181	(296)	(154)	966	(511)	(266)
2039/40	1,477	1,129	(349)	(175)	914	(564)	(283)	1,215	(263)	(132)	1,010	(468)	(235)
2040/41	1,477	1,160	(317)	(154)	955	(522)	(254)	1,249	(229)	(111)	1,055	(422)	(205)
2041/42	1,477	1,192	(285)	(134)	998	(479)	(225)	1,283	(194)	(91)	1,103	(374)	(175)
2042/43	1,477	1,226	(252)	(114)	1,043	(434)	(197)	1,319	(158)	(72)	1,153	(324)	(147)
2043/44	1,477	1,260	(217)	(95)	1,091	(387)	(169)	1,356	(121)	(53)	1,205	(272)	(119)
2044/45	1,477	1,295	(182)	(77)	1,140	(337)	(143)	1,394	(83)	(35)	1,260	(217)	(92)
2045/46	1,477	1,331	(146)	(60)	1,192	(285)	(117)	1,433	(44)	(18)	1,317	(160)	(65)
2046/47	1,477	1,368	(109)	(43)	1,246	(231)	(91)	1,474	(4)	(1)	1,377	(100)	(40)
2047/48	1,477	1,406	(71)	(27)	1,302	(175)	(67)	1,515	38	14	1,439	(38)	(15)
2048/49	1,477	1,446	(32)	(12)	1,361	(116)	(43)	1,557	80	29	1,504	27	10
2049/50	1,477	1,486	9	3	1,423	(54)	(19)	1,601	124	44	1,573	95	34
2050/51	1,477	1,528	50	17	1,487	10	3	1,646	168	58	1,644	167	57
2051/52	1,477	1,570	93	31	1,555	77	26	1,692	214	71	1,718	241	80
2052/53	1,477	1,614	137	44	1,625	148	48	1,739	262	84	1,796	319	102
5053/54	1,477	1,659	182	56	1,699	222	69	1,788	311	96	1,877	400	124
2054/55	1,477	1,705	228	68	1,776	298	90	1,838	361	108	1,963	485	146
2055/56	1,477	1,753	276	80	1,856	379	110	1,889	412	119	2,051	574	166
2056/57	1,477	1,802	324	91	1,940	463	130	1,942	465	130	2,144	667	187
2057/58	1,477	1,852	375	101	2,028	551	149	1,997	519	141	2,241	764	207
2058/59	1,477	1,904	426	111	2,120	643	168	2,052	575	150	2,343	866	226
2059/60	1,477	1,957	480	121	2,216	739	187	2,110	633	160	2,449	972	245
2060/61	1,477	2,011	534	130	2,316	839	205	2,169	692	169	2,560	1,083	264
2061/62	1,477	2,068	590	139	2,421	944	223	2,230	752	177	2,676	1,199	283
2062/63	1,477	2,125	648	148	2,531	1,054	240	2,292	815	186	2,797	1,320	301
2063/64	1,477	2,184	707	156	2,646	1,168	257	2,356	879	193	2,924	1,447	318
2064/65	1,477	2,245	768	163	2,766	1,288	274	2,422	945	201	3,056	1,579	336
2065/66	1,477	2,308	831	171	2,891	1,414	290	2,490	1,013	208	3,195	1,718	353
2066/67	1,477	2,372	895	178	3,022	1,545	307	2,560	1,083	215	3,340	1,862	370
2067/68	1,477	2,439	961	184	3,159	1,681	323	2,632	1,154	221	3,491	2,014	386
2068/69	24	2,507	2,482	460	3,302	3,277	607	0	(24)	(5)	0	(24)	(5)
2069/70	16	2,577	2,560	458	3,451	3,435	615	0	(16)	(3)	0	(16)	(3)
	70,949	70,949	(0)	(6,679)	70,949	(0)	(9,628)	70,949	(0)	(5,576)	70,949	(0)	(8,411)

APPENDIX D: OPTION 4 GF – Unsupported switch to annuity

		OPTION 4a			OPTION 4b			OPTION 4c			OPTION 4d		
		Life outstanding individual projects @ 4.53%			Life outstanding individual projects @ PWLB annuity rate			35 years @ 4.53%			35 years @ 2.72%		
Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000	Revised repayments £'000	(Reduction) / cost £'000	NPV £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2020/21	1,019	604	(415)	(401)	758	(261)	(252)	379	(640)	(618)	519	(500)	(483)
2021/22	1,019	632	(388)	(362)	776	(243)	(227)	396	(623)	(581)	532	(487)	(454)
2022/23	1,019	660	(359)	(324)	794	(225)	(203)	414	(605)	(546)	546	(473)	(427)
2023/24	1,019	690	(329)	(287)	813	(207)	(180)	433	(586)	(511)	560	(459)	(400)
2024/25	979	677	(303)	(255)	790	(190)	(160)	453	(527)	(444)	575	(404)	(340)
2025/26	979	708	(272)	(221)	808	(171)	(139)	473	(506)	(412)	590	(389)	(317)
2026/27	979	740	(240)	(189)	827	(152)	(120)	495	(485)	(381)	605	(374)	(294)
2027/28	979	773	(206)	(157)	847	(133)	(101)	517	(462)	(351)	621	(358)	(272)
2028/29	979	808	(171)	(126)	866	(113)	(83)	540	(439)	(322)	637	(342)	(251)
2029/30	964	826	(138)	(98)	870	(94)	(67)	565	(399)	(283)	654	(311)	(220)
2030/31	964	863	(101)	(69)	891	(74)	(50)	591	(374)	(256)	671	(294)	(201)
2031/32	964	903	(62)	(41)	912	(53)	(35)	617	(347)	(230)	688	(276)	(183)
2032/33	964	943	(21)	(13)	933	(31)	(20)	645	(319)	(204)	706	(258)	(165)
2033/34	875	865	(9)	(6)	851	(23)	(14)	674	(200)	(124)	724	(150)	(93)
2034/35	785	782	(3)	(2)	767	(18)	(11)	705	(80)	(48)	743	(42)	(25)
2035/36	695	692	(4)	(2)	679	(16)	(9)	737	42	24	763	67	39
2036/37	687	581	(106)	(59)	577	(111)	(62)	770	83	46	782	95	53
2037/38	578	573	(5)	(3)	562	(15)	(8)	805	228	123	803	225	121
2038/39	375	409	33	17	419	43	22	651	276	144	666	291	151
2039/40	367	427	60	30	429	62	31	681	314	158	684	316	159
2040/41	367	446	79	38	441	73	36	712	344	167	702	335	163
2041/42	367	467	99	47	452	85	40	744	377	177	721	354	166
2042/43	367	380	12	6	376	9	4	670	302	137	653	285	129
2043/44	367	397	30	13	386	19	8	700	333	146	670	303	133
2044/45	246	214	(32)	(14)	235	(11)	(5)	732	485	205	689	442	187
2045/46	244	220	(24)	(10)	239	(5)	(2)	765	521	213	707	463	189
2046/47	244	230	(14)	(6)	245	1	0	799	555	219	727	482	191
2047/48	244	241	(4)	(1)	252	8	3	836	591	226	746	502	192
2048/49	244	251	7	3	259	15	6	874	629	232	767	523	193
2049/50	244	263	19	7	267	22	8	913	669	238	788	543	194
2050/51	244	275	30	10	274	30	10	954	710	245	809	565	194
2051/52	244	287	43	14	282	38	12	998	754	251	831	587	195
2052/53	244	300	56	18	290	45	15	1,043	799	257	854	609	196
5053/54	244	314	70	22	298	53	17	1,090	846	263	877	633	196
2054/55	244	328	84	25	306	62	19	1,140	895	269	901	656	197
2055/56	244	343	99	29	315	70	20	0	(244)	(71)	0	(244)	(71)
2056/57	244	358	114	32	323	79	22	0	(244)	(68)	0	(244)	(68)
2057/58	244	375	130	35	332	88	24	0	(244)	(66)	0	(244)	(66)
2058/59	244	392	147	39	342	98	25	0	(244)	(64)	0	(244)	(64)
2059/60	244	409	165	42	351	107	27	0	(244)	(62)	0	(244)	(62)
2060/61	244	428	184	45	361	117	29	0	(244)	(60)	0	(244)	(60)
2061/62	244	447	203	48	371	127	30	0	(244)	(58)	0	(244)	(58)
2062/63	244	467	223	51	382	137	31	0	(244)	(56)	0	(244)	(56)
2063/64	244	489	244	54	392	148	33	0	(244)	(54)	0	(244)	(54)
2064/65	244	511	267	57	403	159	34	0	(244)	(52)	0	(244)	(52)
2065/66	236	515	279	57	400	164	34	0	(236)	(49)	0	(236)	(49)
2066/67	236	538	302	60	411	175	35	0	(236)	(47)	0	(236)	(47)
2067/68	154	255	101	19	194	40	8	0	(154)	(30)	0	(154)	(30)
2068/69	84	202	118	22	151	67	12	0	(84)	(16)	0	(84)	(16)
2069/70	6	15	9	2	11	5	1	0	(6)	(1)	0	(6)	(1)
	24,511	24,511	0	(1,804)	24,511	0	(1,153)	24,511	0	(2,324)	24,511	0	(1,639)

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