

Explanatory Memorandum to the Local Authorities (Capital Finance and Accounting) (Wales) (Amendments relating to Minimum Revenue Provision) Regulations 2026

This Explanatory Memorandum has been prepared by the Local Government Finance Policy Division and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Cabinet Secretary's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Local Authorities (Capital Finance and Accounting) (Wales) (Amendments relating to Minimum Revenue Provision) Regulations 2026.

Jayne Bryant MS
Cabinet Secretary for Housing and Local Government
21 January 2026

PART 1

1. Description

- 1.1. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (“the 2003 Regulations”) provide the regulatory framework for the accounting practices to be followed by local authorities in Wales.
- 1.2. The Local Authorities (Capital Finance and Accounting) (Wales) (Amendments relating to Minimum Revenue Provision) Regulations 2026 (“the Regulations”) amend the 2003 Regulations to provide that, during the financial year beginning with 1 April 2026, county councils and county borough councils have discretion to make minimum revenue provision (“MRP”) but are not required to do so. The amendments provide that, where such councils make MRP, they must calculate an amount they consider prudent. Supplementary guidance to the current guidance will be issued in relation to the 2026-2027 financial year to provide flexibility in the calculation of what is a prudent amount of MRP for that financial year.

2. Matters of special interest to the Legislation, Justice and Constitution Committee

- 2.1 None.

3. Legislative background

- 3.1 The Regulations are made using the powers under sections 21(1) and 123(1)(a) and (2) of the Local Government Act 2003 (“the 2003 Act”). The powers under that Act are expressed as being exercisable by the Secretary of State, however, section 24 of the 2003 Act provides that in its application to Wales, the powers are to be exercised by the Welsh Ministers.
- 3.2 Section 123(1)(a) gives the Welsh Ministers power to make different provision for different cases. Section 123(2) gives them power to make different provision for different local authorities or descriptions of local authority. The Regulations make different provision for county councils and county borough councils only.
- 3.3 The Welsh Ministers may issue guidance about the accounting practices to be followed by a local authority under section 21(1A) of the 2003 Act.
- 3.4 The Regulations are made under the Senedd annulment procedure by virtue of section 123(6) of the 2003 Act, read with paragraphs 30 and 34 of Schedule 11 to the Government of Wales Act 2006.

4. Purpose and intended effect of the legislation

- 4.1 The purpose of the Regulations is to give local authorities more flexibility in setting their budgets in 2026-2027.
- 4.2 Where local authorities finance capital expenditure with debt, they must set aside an amount of money each year to ensure that debt can be repaid. Under [the 2003 Regulations](#), in setting its budget, a local authority is required to set aside a MRP to reflect the cost of borrowing to construct or buy assets with a finite life. For example, if an authority borrowed £100m to purchase assets with a life span of 50 years, the MRP set aside could reasonably be expected to be circa £2m - reflecting both the lifetime of the assets and ensuring intergenerational fairness. MRP is a cost that must be funded by the General Fund.
- 4.3 Regulations 21 and 22 of the 2003 Regulations set out that a local authority must charge MRP to a revenue account during a financial year and must calculate an amount of MRP that it considers prudent. A local authority is required to have regard to guidance issued by the Welsh Ministers.
- 4.4 In respect of the financial year beginning with 2026-2027, the Regulations allow county councils and county borough councils to decide whether to make MRP in that financial year or not. Where such a council decides to make MRP, it must calculate an amount it considers prudent, having regard to statutory guidance issued by the Welsh Ministers. Supplemental guidance will be issued outlining that, for the financial year 2026-2027, a council may consider prudent a level of MRP lower than would be the case if the original guidance was applied. The supplemental guidance will also set out the revised approach to be applied in future years, up to a maximum of ten years, to rebalance the provision.
- 4.5 There is a statutory requirement on local authorities to set a balanced budget each year, including the MRP. The Welsh Government is aware of the current pressures facing local authorities from across a range of sources from inflation and service demand patterns, together with significant changes within large UK grants and uncertainty from political cycles. This short-term flexibility in the level of MRP provision applied gives county councils and county borough councils an additional flexibility to manage their immediate and medium-term budget planning. This change is optional not mandatory and can be used alongside other flexibilities such as use of reserves and capital directions based on the specific circumstances of an individual local authority. Any change to a local authority's MRP policy must be agreed by full council as part of the annual MRP statement.

5. Consultation

- 5.1 A 6-week consultation has been carried out with specific professional stakeholders including Audit Wales, CIPFA and local authorities as this is a technical change.
- 5.2 Consultation responses overall supported optional time limited additional flexibilities in setting the budget. Responses emphasised any decisions in changes to the MRP should be transparent, with a planned time limited “repayment” schedule agreed by the full council to manage risks.

PART 2: REGULATORY IMPACT ASSESSMENT

Options

This Regulatory Impact Assessment (RIA) presents two options, the status quo and introducing additional time limited flexibility into local authority budget planning via amending the requirements for minimum revenue provision (“MRP”). The options considered are as follows:

- ***Option 1 – Do nothing.*** Retain the existing arrangements.
- ***Option 2 – Make the Regulations.*** Provide that MRP is discretionary in the financial year 2026-2027.

Costs and benefits

Option 1 – Do nothing

Option 1 would not require any legislative change. The benefits of no change would mean consistency with current guidance and CIPFA code, it would also mean no adverse impact on future generations having to manage higher annual MRP provision to make up any gap created by no provision or reduced provision in 2026-2027.

Disadvantages are that in a time of significant pressures from service demand and inflation, alongside uncertainty from the political cycle, local authorities have fewer options to manage their budget shortfalls over a period of time rather than in one year, especially for those holding lower reserves. This means that such authorities would need to consider service reductions or increases in income generation, primarily through council tax. These choices would impact on current and future service users and council tax payers.

Option 2 – Make the Regulations

Option 2 would be to make the Regulations to provide additional flexibilities in setting budgets. The benefits associated with this option include a wider range of flexibilities for local authorities when setting their budget and medium-term financial plans, whilst managing pressures from inflation and service demands alongside uncertainty from political cycles. The regulations give a county council or county borough council the choice of charging no MRP in the financial year 2026-2027 or charging MRP at a level it considers prudent, having regard to the supplemental guidance that Welsh Ministers intend to make. That guidance will permit calculation in accordance with the existing statutory guidance, or a lower amount. It therefore gives such authorities a wide flexibility in charging MRP and may be particularly beneficial for those authorities with low reserves. Local authorities are also expected to manage a change in profile between revenue and capital of a large UK government grant, and this may provide additional flexibility for the associated transitional period.

There are no additional costs for local authorities associated with this option. They will however need to consider the MRP charge required over the specified readjustment period which will likely need to increase if no MRP, or a lower charge, is made in the financial year 2026-2027. They will also need to consider the impact of a change in MRP on their future capital programme and associated costs.

Option selection

The benefits of Option 2 are considered to outweigh the benefits of Option 1. Option 2 is, therefore, the Welsh Government's preferred option.

Duties

Well-being of Future Generations (Wales) Act 2015. While reducing, or not charging, a MRP in 2026-2027 pushes the costs into future years the revised guidance that will be published alongside the changes will require a maximum of 10 years to readjust the MRP provision. This limits the impact on future generations and spreads the risk over a number of years.

UNCRC. No particular impact on the rights of children has been identified. Any budget flexibility used is likely to positively impact the management of education and children's social care spend, as two of the biggest areas of costs to local authorities.

Welsh language. No effect on the opportunities to use the Welsh language or the equal treatment of the language has been identified.

Equalities. No specific impacts, positive or negative, on persons who share a protected characteristic (as determined by the Equality Act 2010) have been identified. Local authorities are required to complete equality impact assessments as part of the process of setting their budgets. The additional flexibility afforded by the short-term change to the Regulations give the opportunity for local authorities to plan their budgets over a longer time period alongside other flexibilities that are already in place. The requirement to complete impact assessments will also be required for budgets in future years, when the MRP may have to be readjusted.

Voluntary sector. No specific impacts on the voluntary sector have been identified.

Justice. The changes proposed will have no impact on the justice system.

Competition assessment

No competition impacts have been identified.

Post-implementation review

This is a flexibility afforded to county councils and county borough councils in the financial year 2026-2027 to manage budget planning. Financial health monitoring of authorities is carried out on an ongoing basis and any impacts will be reviewed as part of this standard monitoring.