5th December 2018

Ordinary Council

Minimum Revenue Provision (MRP) Policy

Report of: *Jacqueline Van Mellaerts – Interim Chief Finance Officer*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

1.1 The Treasury Management Strategy, as part of the Council's Policy Framework, must be approved by The Council. This report presents changes to the Treasury Management Strategy 2018/19 regarding the Council's Minimum Revenue Provision (MRP) Policy.

1.2 The Council is required by the Capital Finance and Accounting Regulations 2008 to determine for each financial year a level a provision for the repayment of debt liability that it considers to be prudent. This is known as the Minimum Revenue Provision (MRP).

1.3 The Council is required by regulations issued under the Local Government Act 2003 to have regards to *The CIPFA Prudential Code for Capital Finance in Local Authorities (2017).* Statutory Guidance from Government advises that Local Authorities can vary methodologies during the year, and a revised Minimum Revenue Provision (MRP) statement should be taken to the next Full Council.

1.4 Officers commissioned its treasury advisors, Link Asset Services, to carry out a review of the Council's MRP Policy. The purpose was to identify any scope to vary the MRP in order to ease the current pressure on the revenue budget, whilst ensuring that the provision remains prudent and compliant with statutory guidance.

2. Recommendations

2.1 **To approve the Revised Minimum Revenue Provision (MRP) Policy as shown in Table 2.**

3. Introduction & Background

3.1 This set out the previous reports which have been presented to Committee to engage a timeline on the Treasury Management Strategy: -

a) Ordinary Council 6 March. As part of the Medium-Term Financial Plan, The Treasury Management Strategy was approved, including the Minimum Revenue Provision (MRP) Policy.

b) Ordinary Council 27 June. This report proposed the total £30m loan draw down facility to Seven Arches Investments Ltd (SAIL) and set out the changes required to the capital and treasury prudential indicators

c) Policy, Projects & Resources Committee 18 September. This report gave an update on investment and borrowing activity.

d) Policy, Project & Resources Committee 20 November. Medium term Financial Plan Mid Year Review Including a Revised Minimum Revenue Provision Policy to be referred to Ordinary Council.

4. Minimum Revenue Provision (MRP) Policy

Background

4.1 The Council is required by the Capital Finance and Accounting Regulations 2008 to determine for each financial year a level a provision for the repayment of debt liability that it considers to be prudent. This is known as the Minimum Revenue Provision (MRP).

4.2 The Council's MRP policy for 2018/19 was approved at Council on 6 March 2018 and is as follows:

Table 1 – Current Minimum Revenue Provision Policy 2018/19

1. For capital expenditure incurred before 1 April 2008, minimum revenue provision will be provided for in accordance with existing practice outlined in the 2003 Capital Financing Regulations, which provides for an approximate 4% reduction in the borrowing need each year.

2. For all unsupported borrowing from 1 April 2008, MRP will be based on the estimated life of the assets, which provides for a reduction in the borrowing need over the assets' lives.

4.3 Officers commissioned the Council's treasury advisors, Link Asset Services, to carry out a review of the Council's MRP policy. The purpose was to identify any scope to vary the MRP in order to ease the current pressure on the revenue budget, whilst ensuring that the provision remains prudent and compliant with statutory guidance.

4.4 As a result of the review, Link Asset Services have recommended that the Council approves the following revised MRP policy to be applied from 2018/19.

Table 2 - Revised Minimum Revenue Provision Policy for 2018/19 onwards

1. Debt Liability pre-1 April 2008
   For capital expenditure funded by borrowing before 1 April 2008, minimum revenue provision will be provided in accordance with existing practice outlined in the pre-2008 regulations, but on a 2% straight-line basis, i.e. provision for the repayment of debt over 50 years.

2. Debt Liability 1 April 2008 onwards
   Minimum revenue provision for new capital expenditure incurred wholly or partly by unsupported (Prudential) borrowing or credit arrangements is to be determined by reference to the expected life of the assets financed by the borrowing, on an annuity basis. The asset life is deemed to begin once the asset becomes operational. Minimum revenue provision will commence from the financial year following the one in which the asset becomes operational.

3. Minimum revenue provision in respect of unsupported (prudential) borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

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

Reasons for the change

4.5 Debt Liability pre-1 April 2008

The Council's historic, pre-1 April 2008 debt liability for MRP purposes is £3.157m. The Council currently charges 4% on this liability on a reducing

balance basis. The draw back to this method is that it will take in excess of 100 years to fully provide for the debt liability, thereby creating a burden for future generations of Council Tax payers.

4.6 Applying a 2% charge on a straight-line basis would have the effect of reducing the debt liability to a fixed life of 50 years. The new method is a fairer and more prudent approach than the current method, as it reduces the burden on future generation and introduces a more certain period for spreading the cost of this debt liability.

4.7 Debt Liability 1 April 2008 onwards

The Council's debt liability from 1 April 2008 stood at £4.389m at the start of the current financial year. This includes £3.256m debt liability in respect of the shops transferred from the HRA to the General Fund in 2017. Unlike the pre-1 April 2008 debt liability, this amount is subject to increase in the future if new borrowing is taken out.

4.8 The MHCLG guidance states that the asset life method, can be applied over the lives of the assets either on a straight- line basis or by using the annuity method. The annuity method produces a lower charge in the earlier years and a higher charge in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where the benefits are expected to increase in later years. It also provides a fairer charge than equal instalments as it takes account of the time value of money.

Financial Impact

4.9 Debt Liability 1 April 2008

Adopting the straight-line method would produce an annual MRP charge over 50 years of £0.063m. The following table compares the charges resulting from the revised method against the charges using the current method over the next five years:

Year	Current method	Revised method	Difference
	£000	£000	£000
2018/19	126	63	-63
2019/20	116	63	-53
2020/21	112	63	-49
2021/22	107	63	-44
2022/23	103	63	-40

4.10 The new approach would produce a lower MRP charge up to 2035/36 and a higher MRP charge up to 2067/68.

Over the 50-year period the overall cost to the General Fund would be £0.410m higher in cash terms, but £0.167m lower in real terms i.e. when the time value of money is taken into account.

4.11 Debt Liability 1 April 2008 onwards

Adopting the annuity method over an asset life of 70 years would produce an MRP charge for 2018/19 of £0.033m, gradually rising over the 70-year period. The following table compares the charges resulting from the annuity method against the charges using the current method over the next five years:

Year	Current method	Revised method	Difference
	£000	£000	£000
2018/19	73	33	-40
2019/20	73	34	-39
2020/21	73	35	-38
2021/22	73	35	-38
2022/23	73	35	-38

4.12 The new approach would produce a lower MRP charge up to 2035/36 and a higher MRP charge up to 2067/68. The charge to the General Fund is the same over the 70-year period in cash terms, but £0.332m lower in real terms.

4.13 Combined impact and use of MRP overprovision

The following table shows the combined impact of the above changes. The would be an annual MRP charge of £0 096m, rising to £0.098m in 2022/23.

Year	Current methods	Revised methods	Difference
	£000	£000	£000
2018/19	199	96	-103
2019/20	189	96	-93
2020/21	185	96	-89
2021/22	180	96	-84
2022/23	176	98	-78

4.14 The Council's external auditors in 2010/11 determined that the Council overprovided MRP between 2003/04 and 2010/11. At the request of the auditors, the Council agreed to treat the overprovision as voluntary set-aside, i.e. an additional provision over and above what was deemed prudent at the time. The amount of the overprovision was £1.269m, and since 2010/11 the Council has used £0.94m of this amount to offset MRP. This leaves a residual overprovision of £0.345m that the Council can use to offset future MRP.

4.15 The MRP charges between 2018/19 and 2020-21, totalling £0.288m, can be offset against the £0.345m overprovision, meaning that there will no actual charge to the General Fund in those years. There would be a £0.039m charge to the General Fund in 2021/22, and a full charge of £0.98m in 2022/23.

Debt liability pre-1 April 2008 - residual liability

4.16 A feature of the method for calculating the MRP on the debt liability pre-1 April 2008 was the introduction of an adjustment know as Adjustment A. This was introduced as part of the revised system of capital controls that come into effect from 1 April 2004. It represents the difference between the Capital Financing Requirement balance under the new system and the pre-April 2004 credit ceiling. Its purpose was to ensure that Authorities were no worse off under the new system than under the previous credit ceiling.

4.17 The Council's Adjustment A is £4.619m. Its significance is that the Council is only required to repay the credit ceiling amount and there is no requirement to provide for the difference, i.e. the Adjustment A amount. The outcome is that means that the Council will have a residual debt liability of £4.619m at the end of 100+ years if it keeps to the current method, or at the end of 50 years if it switches to the new method.

4.18 The Council could choose to make additional provision for this debt if it wanted to fully clear its debt liability. To provide for this debt over 50 years on a straight-line basis would cost an additional £0.092m per year. It is not considered necessary to make this additional provision at this point in time, but this will be kept under review for future years.

5. Reasons for Recommendation

5.1 Effective financial management underpins all of the priorities for the Council and will enable the Council to operate within a sustainable budget environment.

6. Consultation

6.1 None

7. References to Corporate Plan

7.1 The Medium-Term Financial Plan is linked to achieving the vision in the corporate plan.

8. **Implications**

Financial Implications
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8.1 The MRP charges between 2018/19 and 2020-21, totalling £0.288m, can be offset against the £0.345m existing overprovision, meaning that there will be no actual charge to the General Fund in those years. There would be a £0.039m charge to the General Fund in 2021/22, and a full charge of £0.98m in 2022/23.

8.2 However, MRP for future years will change depending on the future capital program, once growth bids have been reviewed. Therefore MRP and its impact on the General Fund budget will be revisited yearly as part of the budget setting process.

8.3 The MRP changes will present the Council with a saving by revising the methodology for 2018/19 as stated in Table 2.

Legal Implications
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8.4 The recommendations within this report are lawful and within the Councils powers and duties. The Council has duties within an existing legal framework to make proper arrangements for the management of its financial affairs, including to determine an amount of MRP which it considers to be prudent for the current financial year. The Council is permitted to vary the methodology used to make prudent provision during the year. A revised MRP statement should be presented to the next full Council meeting.

Other Implications - Risk Management

8.5 Finance Pressures is an existing Risk on the Council Strategic Risk register. The outcome of this Mid-year Review has not altered the current risk rating of this specific risk, which is currently set at the highest level.

9. Background Papers

Budget Report approved 6 March 2018
Ordinary Council 27th June 2018
Policy, Projects and Resources 18th September 2018
Policy, Projects and Resources 20th November 2018

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