BRENTWOOD BOROUGH COUNCIL

AUDIT & SCRUTINY COMMITTEE

11 July 2023

REPORT TITLE:	Historic accounting for Minimum Revenue Provision
REPORT OF:	Tim Willis, Interim Resources Director

REPORT SUMMARY

This report describes an outstanding issue with the calculation of and accounting for Minimum Revenue Provision (MRP) for the period 2007/08 to 2011/12 and from 2017/18 onward. It also outlines the plan to resolve the matter with the involvement of the Council's external auditors, EY, and treasury advisors, Link Group.

RECOMMENDATIONS

That the Committee notes this report.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

1.1 The outcome of the resolution of this technical matter could lead to a retrospective charge to the accounts of £0.640m and an ongoing increase in the MRP of £0.085m. This will be reflected in the 2021/22 final accounts, once audited.

2.0 OTHER OPTIONS CONSIDERED

2.1 None.

3.0 BACKGROUND INFORMATION

3.1 MRP is an amount that Brentwood is required to charge to its revenue account each year toward the repayment of borrowing incurred for the purpose of financing capital expenditure. In effect, it is the setting aside of funds that will be available repay borrowing for capital expenditure purposes when the borrowing matures. The statutory basis for this duty is the Local Authorities (Capital Financing) Regulations 2023.

3.2 The Council uses two methods to calculate MRP, in accordance with the statutory guidance issued by Government:

a) supported borrowing method, applicable to borrowing in relation to capital expenditure incurred prior to 1 April 2008: up to 2018, the Council set aside 4% of the borrowing each year on a reducing balance basis; since 2018, the Council has set aside 2% of the borrowing each year on a straight-line basis (i.e. over a 50 year period).

b) asset life method, borrowing in relation to capital expenditure incurred on or after 1 April 2008: the Council sets aside an amount each year over the life of the assets financed by borrowing: the amount set aside increases each year by a discount rate determined by the Council; the outcome is that the total amount set aside over the life of the asset is equivalent to the amount borrowed to finance that asset.

3.3 During the audit of the 2020/21 accounts, which was carried out in 2022, the external auditors, EY, carried out a detailed review of the Council's MRP going back to 2003 (the year when the current MRP regime was introduced). Their reason for undertaking this review was that MRP has become a key risk area for the Council in view of the significant increase in borrowing by Brentwood in recent years.

3.4 The external audit review is a complex exercise, but a couple of key points have emerged:

3.5 MRP on finance leases.

a) Around 2011, a number of assets held by the Council at the time were reclassified as finance leases (following the introduction of International Financial Reporting Standards as the basis of the preparation of local authority accounts). It follows that the MRP associated with the financing of these assets should have been switched at the time from the supported borrowing method to the asset life method.

b) It is not conclusive from the Council's historical records from the time as to whether this switch in MRP treatment occurred. The auditors' view, however, from their review of the statement of accounts from the time and the available supporting working papers, is that this switch did not happen and that as a result, the Council has historically underprovided MRP on these assets between the financial years 2007/08 to 2011/12. Instead of providing MRP over a relatively short period of time (the length of the leases) the Council continued to spread MRP over a much longer period.

3.6 MRP on supported borrowing.

a) When the Council switched from the reducing balance method to the straight-line method in 2018, the Council continued to apply an adjustment to the calculation known as "Adjustment A". This adjustment was introduced by the Government in 2003 and its purpose was to ensure that the starting point for calculating MRP under the revised approach did not significantly vary the level of liability that would have arisen had the previous system of capital controls remained unchanged. In effect, it reduces the annual MRP charge.

b) The auditors' view is it is not appropriate for the Council to continue to apply Adjustment A following the switch in method in 2018.

3.7 The potential financial impact of the above findings are:

a) A one-off charge of £0.640m to correct the historic under-provision of MRP.

b) An ongoing annual charge of £0.085m, resulting from any removal of Adjustment A from the MRP calculation on supported borrowing.

3.8 During the conclusion of the 2020/21 audit, the Council and the external auditors agreed that there would be no adjustment to the 2020/21 accounts, and that the Council would instruct its treasury advisors, Link Group, to give a second opinion on the findings of the audit review. This was deemed appropriate by both parties due to the complex nature of the work and the potential impact upon the accounts.

3.9 The review by Link Group is ongoing, with the Council facilitating the review and any discussion required between the auditors and Link Group. This process is expected to conclude in a matter of weeks, but in any case before the conclusion of the external audit of the 2021/22 accounts (by September).

4.0 FINANCIAL IMPLICATIONS

4.1 Depending on the outcome of the review described above, and the final opinion of the S151 Officer after taking into account the technical issues and advice, there may be a charge to the 2021/22 accounts of £0.640m and an ongoing increased charge of £0.085m per annum. The potential one-off charge has been anticipated and provided for in the 2022/23 draft accounts (via reserves) and the ongoing cost will be reflected in future budgets.

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5.0 LEGAL IMPLICATIONS

5.1 None.

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6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 None.

7.0 RELEVANT RISKS

7.1 None – the sums involved do not have a material impact on the Council's financial sustainability.

8.0 ENGAGEMENT/CONSULTATION

8.1 None.

9.0 EQUALITY IMPLICATIONS

9.1 None.

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10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 None.

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APPENDICES

None.

BACKGROUND PAPERS

None.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date