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# Overview and Scrutiny Management Board

## Supplementary Information

**Date:** Thursday, 8 December 2016

**Time:** 1.30 pm

**Venue:** The Writing Room - City Hall, College Green, Bristol, BS1 5TR

## Distribution:

**Councillors:** Geoff Gollop (Chair), Charlie Bolton, Nicola Bowden-Jones, Tom Brook, Jude English, Gill Kirk, Brenda Massey, Olly Mead, Graham Morris, Anthony Negus and Steve Pearce

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**Date:** Wednesday, 30 November 2016

# Supplementary Agenda

## a) Urgent business (Pages 3 - 25)

The following 3 reports are being submitted to the 13 December Full Council agenda:
* Approval of council tax base 2017-18
* Capital receipts flexibility
* Review of Minimum Revenue Provision policy

Cllr Gollop as Chair of the OSM Board has agreed that these reports, as attached should be discussed as urgent items of business at this meeting. Any comments from the Board on these matters will then be circulated to the Mayor/councillors in advance of the Full Council meeting.

# Full Council

13 December 2016

**Report of:** **Strategic Director – Resources**

**Title:** **Approval of Council Tax Base 2017/18**

**Ward:** Citywide

**Member presenting report:** **Councillor Craig Cheney, Cabinet Member for Finance, Performance and Governance**

## Recommendation

**To agree, in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, that the amount calculated by Bristol City Council as its Council Tax base for the financial year 2017/18 shall be 124,083.**

## Summary

The Local Government Finance Act 1992 (as amended) requires the Council as the Billing Authority to calculate a Council Tax Collection Fund estimate by 31 January each year.

**The significant issues in the report are:**

The number of Band D equivalent properties, net of exemptions, reductions and discounts, in the Tax Base for 17/18 is 124,083 and increase of 3,137 (2.6%) Band D equivalent properties since October 2015.

**Policy**

Bristol City Council has the power in statute to raise a tax on households in its area to pay for the provision of local services. It is designated as the Billing Authority for the area. This means that it is responsible for levying a council tax to meet its own demands and to meet the precepts of other authorities in the area. The major precepting bodies are Avon Police and Crime Commissioner and Avon Fire Authority.

**2. Consultation**

i. **Internal**
Assistant Local Tax Manager – Citizen Services

ii. **External**
Not Applicable

**3. Context**

i. Section 67 of the Local Government Finance Act 1992 (as amended) requires the Council to determine its tax base for council tax purposes each year. Properties are recorded in eight national bands by value (A to H) as determined the Valuation Office agency. Band H taxpayers pay twice as much as those in Band D and three times as much as those in Band A. The number of properties is expressed as a number of Band D equivalent properties.

ii. In accordance with Regulations the Authority must set a tax base for council tax purposes and notify major precepting bodies by 31 January each year.

4. **Calculation of council tax base**

i. The calculation has been prepared in accordance with the Local Authorities (Calculation of Council Tax Base) Regulations 2012 which came into force on 30 November 2012. In October each year DCLG requires a snapshot, which is based on the number of properties, of the Tax Base at a specified date in September, net of exemptions, reductions and discounts. This is known as the CTB1 return. A copy of the return for October 2016 is attached as Appendix A to this report. This calculates the number of chargeable properties in the City. Adjustments are then made for discounts and exemptions including those for the Council Tax Support Scheme. The adjusted numbers of properties in each of the eight valuation bands A to H are expressed as numbers of band D equivalents so they may be added together to produce a single figure.

ii. The significant factors required to be taken into account in calculating the Tax Base are as follows:

**5. Local Council Tax Reduction Scheme**

i. From 1 April 2013 local council tax support schemes replaced council tax benefit in England. Under these local schemes reductions are part of the council tax system rather than a welfare benefit. Bristol City Council introduced a localised scheme that provided a full set of discounts that replicated the previously existing national Council Tax benefit scheme. No change to this

arrangement is proposed for 2017/18.

ii. Projections to the end of March 2017, indicate that, since October 2015 the number of pensioner claimants has reduced by 10.7%, primarily because pensioner benefit income is rising more quickly than the cost of living ("triple lock"), while the number of working age claimants has reduced by 5.4%. This is in line with previously reported trends and therefore has been reflected in the calculation of the Tax Base.

**6. Unoccupied Properties**

i. Unoccupied Furnished Properties – the Council has discretion to set the level of discount for properties which are substantially furnished but are not anyone's sole or main residence (often referred to as "second homes") The Council has determined this level of discount will remain at 0% and this is reflected in the proposed Tax Base.

ii. Vacant Properties – The Council has discretion to determine the discount, if any, to be awarded in respect of vacant dwellings (that is dwellings that are unoccupied and substantially unfurnished). This discount is currently set at 10% for the first six months followed by 5% for the following 18 months.

iii. Long Term Empty Properties – There is a discretionary power for the Council to impose a premium of up to 50% in respect of properties that have remained vacant for at least two years. The proposed Tax Base incorporates a premium of 50% charged in respect of properties that have been empty for at least two years in accordance with the Council's previous determination that a premium of 50% should apply to this category of dwellings.

**7. Single Person Discounts**

i. Regular reviews have significantly reduced the number of properties attracting single person discounts. Currently 29% of domestic properties are claiming single person discount. This is the lowest of all Core Cities. Continuing reviews helps to ensure that the Council Tax Base properly reflects entitlements to this discount.

**8. Student Discounts**

i. Students are entitled to an exemption from paying Council Tax if everyone in the property is a full time student. Alternatively they may be entitled to a discount if some of the people occupying a property are full time students. Bristol has a large student population, and as at the end of October all student lists have not been made available to the Council. It is therefore necessary to estimate the number of additional students likely to be eligible for exemptions. Any estimate to be included in the Tax Base will also take account of any known student related property developments. The adjustment of 1,250 Band D equivalents in the table below comprises of an estimated increase in student exemptions of 850 Band D equivalents and an additional 400 Band D equivalent student properties.

**9. Growth**

i. In determining the Tax Base for the forthcoming year the Council is able to take into account any increase in Tax Base that may arise from the completion of new properties. Recently there

has been significant property development across the City and, in view of this continuing trend, it is considered reasonable to allow for an element of growth in the Tax Base due to the anticipated completion of new properties in respect of known major developments. In estimating the effect on the Tax Base of new properties it is prudent to assume the majority of new properties will be in lower valuation Bands. Allowances must also be made for discounts that will apply in respect of new properties, including Council Tax Support discounts, and for the fact that Council Tax will only be payable for new properties from the date of completion rather than for a full financial year.

**10. Losses on Collection**

i. In estimating the provision for losses on collection the Council makes an estimate of debts which, after full recovery measures have been affected will be uncollectable and therefore recommended for write-off. Losses on collection for 2017/18, after adjusting for the continued collection of prior years' arrears, is estimated to be 1.5%

**11. Calculation of the 2017/18 Council Tax Base**

| | 2017/18 Band D Equivalent Properties |
|---|---|
| | |
| Tax Base as per attached CTB 1 Return | 125,773 |
| | |
| Adjustment due to anticipated growth | 1,450 |
| | |
| Reduction due to additional student discounts | - 1,250 |
| | |
| Adjusted Tax Base | 125,973 |
| | |
| LESS losses on collection of 1.5% | - 1,890 |
| | |
| **Recommended Tax Base 2017/18** | **124,083** |

i. This is an increase of 3,137 (2.6%) Band D equivalent properties since the last Tax Base calculation in November 2015. This is primarily due to an increase in the number of chargeable dwellings of 1,896 and the continued reduction in the number of benefit recipients receiving council tax reductions. The Current MTFP assumes annual growth in the Tax Base of 1%, which is consistent with previously identified growth in the local housing market, but is not reflecting the full effect of the reduction in the number of benefit recipients receiving council tax reductions.

ii. The 2017/18 estimate for growth uses information provided by the Council's Valuation and Inspection team and is based on the number of new developments in the City where work has

commenced. Assumptions are then made as to whether these properties will be banded by the end of the financial year, the actual date during the year they may be banded, the number of exemptions, discounts and Council Tax Support they might attract.

iii. Valuation & Inspection information has identified that there are potentially 5808 additional domestic assessments where work has commenced. Taking in to account the robust housing market and the higher than anticipated number of new builds in 2016/17, the estimate of properties likely to be banded during 2017/18 has been increased from 50% to 75%, resulting in a figure of 4356. A further reduction of 50% is made to take account of the fact that all of these properties will not have been banded on 1 April 2017. The resulting figure is 2178 and a 25% reduction has been factored in for loss in revenue due to exemptions, discounts and Council Tax Support. The final figure of 1631 is assumed to be lower banded properties so this figure has been converted into the Band "D" equivalent of 1268. Additionally, since the completion of CTB1 a further 182 band D properties have been added to the rating list, bringing the total estimated growth to 1450 band D equivalents.

iv. To ensure the estimate of overall growth in the Tax Base is prudent officers have carried out an analysis of both growth in the local housing market over the last five years and the reduction in the number of benefit recipients receiving council tax reductions over the last three years.

12. **Other Options Considered**

i. Not applicable

13. **Risk Assessment**

i. There are a number of risks associated with estimating the amount of Council Tax collected during the year. These include;

- Difficulty in estimating Council Tax discounts and exemptions, including the take-up of the Council Tax Support Scheme.

**14. Public Sector Equality Duties**

i. There are no proposals in this report which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

**15. Legal and Resource Implications**

i. **Legal**

The tax base calculations for a particular financial year must comply with the Local Authorities (Calculation of Council tax base) Regulations 2012, and be determined by no later than 31st January in the preceding financial year. These regulations have been made under the Local Government Finance Act 1992, as amended (LGFA 1992).

**(Legal advice provided by Shahzia Daya – Service Director: Legal and Democratic Services)**

ii. **Financial**

**(a) Revenue**

The council tax base directly influences the resources available to the fund the revenue budget due to be considered by Full Council on 21 February 2017.

**(b) Capital**

Not Applicable

**(Financial advice provided by Tony Whitlock – Finance Manager, Corporate Finance**

iii. **Land**

Not Applicable

iv. **Personnel**

Not Applicable

**Appendices:**

Appendix A – Copy of the CTB report submitted to the DCLG October 2016

**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**Background Papers**: None

# CTB(October 2016)

## Calculation of Council Tax Base

Please e-mail to : ctb.statistics@communities.gsi.gov.uk
Please enter your details after checking that you have selected the correct local authority name

Ver 1.0

Please select your local authority's name from this list: Brighton & Hove, Bristol, Broadland, Bromley, Bromsgrove, Broxbourne

| | |
|---|---|
| Check that this is your authority : | Bristol |
| E-code : | E0102 |
| Local authority contact name : | Martin Smith |
| Local authority contact telephone number : | 0117 9755744 |
| Local authority contact e-mail address : | martin.smith@bristol.gov.uk |

## CTB(October 2016) form for : Bristol

*Completed forms should be received by DCLG by Friday 14 October 2016*

**Dwellings shown on the Valuation List for the authority on Monday 12 September 2016**

**Part 1**

| | Band A entitled to disabled relief reduction COLUMN 1 | Band A COLUMN 2 | Band B COLUMN 3 | Band C COLUMN 4 | Band D COLUMN 5 | Band E COLUMN 6 | Band F COLUMN 7 | Band G COLUMN 8 | Band H COLUMN 9 | TOTAL COLUMN 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Total number of dwellings on the Valuation List | | 50,718 | 72,502 | 38,487 | 17,826 | 9,512 | 4,730 | 2,839 | 335 | 196,949.0 |
| 2. Number of dwellings on valuation list exempt on 3 October 2016 (Class B & D to W exemptions) | | 2,031 | 1,330 | 1,298 | 1,102 | 977 | 150 | 38 | 13 | 6,939.0 |
| 3. Number of demolished dwellings and dwellings outside area of authority on 3 October 2016 (please see notes) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| 4. Number of chargeable dwellings on 3 October 2016 (treating demolished dwellings etc as exempt) (lines 1-2-3) | | 48,687 | 71,172 | 37,189 | 16,724 | 8,535 | 4,580 | 2,801 | 322 | 190,010.0 |
| 5. Number of chargeable dwellings in line 4 subject to disabled reduction on 3 October 2016 | | 29 | 190 | 152 | 86 | 53 | 28 | 30 | 28 | 596.0 |
| 6. Number of dwellings effectively subject to council tax for this band by virtue of disabled relief (line 5 after reduction) | 29 | 190 | 152 | 86 | 53 | 28 | 30 | 28 | | 596.0 |
| 7. Number of chargeable dwellings adjusted in accordance with lines 5 and 6 (lines 4-5+6 or in the case of column 1, line 6) | 29 | 48,848 | 71,134 | 37,123 | 16,691 | 8,510 | 4,582 | 2,799 | 294 | 190,010.0 |
| 8. Number of dwellings in line 7 entitled to a single adult household 25% discount on 3 October 2016 | 7 | 21,697 | 20,741 | 9,552 | 3,725 | 1,686 | 651 | 338 | 26 | 58,423.0 |
| 9. Number of dwellings in line 7 entitled to a 25% discount on 3 October 2016 due to all but one resident being disregarded for council tax purposes | 0 | 423 | 636 | 409 | 201 | 76 | 28 | 14 | 4 | 1,791.0 |
| 10. Number of dwellings in line 7 entitled to a 50% discount on 3 October 2016 due to all residents being disregarded for council tax purposes | 0 | 25 | 60 | 58 | 29 | 29 | 29 | 39 | 22 | 291.0 |
| 11. Number of dwellings in line 7 classed as second homes on 3 October 2016 (b/fwd from Flex Empty tab) | | 745 | 602 | 385 | 255 | 129 | 45 | 27 | 4 | 2,192.0 |
| 12. Number of dwellings in line 7 classed as empty and receiving a zero% discount on 3 October 2016 (b/fwd from Flex Empty tab) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| 13. Number of dwellings in line 7 classed as empty and receiving a discount on 3 October 2016 and not shown in line 12 (b/fwd from Flex Empty tab) | | 1,096 | 875 | 354 | 189 | 61 | 30 | 15 | 6 | 2,626.0 |
| 14. Number of dwellings in line 7 classed as empty and being charged the Empty Homes Premium on 3 October 2016 (b/fwd from Flex Empty tab) | | 125 | 101 | 40 | 14 | 10 | 10 | 3 | 2 | 305.0 |
| 15. Total number of dwellings in line 7 classed as empty on 3 October 2016 (lines 12, 13 & 14) | | 1,221 | 976 | 394 | 203 | 71 | 40 | 18 | 8 | 2,931.0 |
| 16. Number of dwellings that are classed as empty on 3 October 2016 and have been for more than 6 months. NB These properties should have already been included in line 15 above | | 374 | 341 | 154 | 60 | 34 | 31 | 18 | 5 | 1,017.0 |
| 16a. The number of dwellings included in line 16 above which are empty on 3 October 2016 because of the flooding that occurred between 1 December 2013 and 31 March 2014 and are only empty because of the flooding | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| 16b. The number of dwellings included in line 16 above which are empty on 3 October 2016 because of the flooding that occurred between 1 December 2015 and 31 March 2016 and are only empty because of the flooding | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| 17. Number of dwellings that are classed as empty on 3 October 2016 and have been for more than 6 months, and fall to be treated under empty homes discount class D (formerly Class A exemptions). NB these properties should have already been included in line 15 above. Do NOT include any dwellings included in line 16a and 16b above | | 35 | 51 | 21 | 14 | 9 | 6 | 4 | 1 | 141.0 |
| 18. Line 16 - line 16a - line 16b - line 17. This is the equivalent of line 18 on the CTB(October 2015) and will be used in the calculation of the New Homes Bonus | | 339 | 290 | 133 | 46 | 25 | 25 | 14 | 4 | 876.0 |
| 19. Number of dwellings in line 7 where there is liability to pay 100% council tax before Family Annexe discount | 22 | 25,482 | 48,721 | 26,710 | 12,533 | 6,648 | 3,834 | 2,390 | 234 | 126,574.0 |

## CTB(October 2016)

### Calculation of Council Tax Base

Please e-mail to : ctb.statistics@communities.gsi.gov.uk

Please enter your details after checking that you have selected the correct local authority name

Ver 1.0

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 20. Number of dwellings in line 7 that are assumed to be subject to a discount or a premium before Family Annexe discount | 7 | 23,366 | 22,413 | 10,413 | 4,158 | 1,862 | 748 | 409 | 60 | 63,436.0 |
| 21. Reduction in taxbase as a result of the Family Annexe discount (b/fwd from Family Annexe tab) | 0.0 | 3.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.9 |
| 22. Number of dwellings equivalents after applying discounts and premiums to calculate taxbase | 27.3 | 43,265.6 | 65,733.8 | 34,593.1 | 15,685.0 | 8,055.0 | 4,400.6 | 2,692.0 | 276.0 | 174,728.2 |
| 23. Ratio to band D | 5/9 | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 | |
| 24. Total number of band D equivalents *(to 1 decimal place)* (line 22 x line 23) | 15.1 | 28,843.8 | 51,126.3 | 30,749.4 | 15,685.0 | 9,845.0 | 6,356.4 | 4,486.7 | 552.0 | 147,659.7 |
| 25. Number of band D equivalents of contributions in lieu (in respect of Class O exempt dwellings) in 2016-17 (to 1 decimal place) | | | | | | | | | | 17.1 |
| 26. Tax base (to 1 decimal place) (line 24 col 10 + line 25) | | | | | | | | | | 147,676.8 |

## CTB(October 2016)

### Calculation of Council Tax Base

Please e-mail to : ctb.statistics@communities.gsi.gov.uk

Please enter your details after checking that you have selected the correct local authority name

Ver 1.0

**Part 2**

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 27. Number of dwellings equivalents after applying discounts amd premiums to calculate tax base (Line 22) | 27.25 | 43,265.63 | 65,733.75 | 34,593.05 | 15,685.00 | 8,055.00 | 4,400.55 | 2,692.00 | 276.00 | 174,728.2 |
| 28.Reduction in taxbase as a result of local council tax support (b/fwd from CT Support tab) | 8.65 | 14,445.66 | 11,300.52 | 2,946.21 | 592.37 | 156.28 | 42.88 | 8.59 | 0.00 | 29,501.2 |
| 29. Number of dwellings equivalents after applying discounts, premiums and local tax support to calculate taxbase | 18.6 | 28,820.0 | 54,433.2 | 31,646.8 | 15,092.6 | 7,898.7 | 4,357.7 | 2,683.4 | 276.0 | 145,227.1 |
| 30. Ratio to band D | 5/9 | 6/9 | 7/9 | 8/9 | 9/9 | 11/9 | 13/9 | 15/9 | 18/9 | |
| 31. Total number of band D equivalents after allowance for council tax support *(to 1 decimal place)* (line 29 x line 30) | 10.3 | 19,213.3 | 42,337.0 | 28,130.5 | 15,092.6 | 9,654.0 | 6,294.4 | 4,472.4 | 552.0 | 125,756.5 |
| 32. Number of band D equivalents of contributions in lieu (in respect of Class O exempt dwellings) in 2016-17 (to 1 decimal place)(line 25) | | | | | | | | | | 17.1 |
| 33. Tax base after allowance for council tax support (to 1 decimal place) (line 31 col 10 + line 32) | | | | | | | | | | 125,773.6 |

**Certificate of Chief Financial Officer**

I certify that the information provided on this form is based on the dwellings shown in the Valuation List for my authority on 12 September 2016 and that it accurately reflects information available to me about exemptions, demolished dwellings, disabled relief, discounts and premiums applicable on 3 October 2016 and, where appropriate, has been completed in a manner consistent with the form for 2015.

Chief Financial Officer : ..... Date : .....

14/10/2016

# Full Council

13 December 2016

**Note: this report is subject to a decision at Cabinet on 6 December 2016**

**Report of:** **Service Director - Finance**

**Title:** **Capital receipts flexibility**

**Ward:** Citywide

**Member Presenting Report:** **Cllr Craig Cheney, Cabinet member for Finance, Governance and Performance**

**Recommendation**
To approve the Strategy for the Flexible use of Capital Receipts as set out in paragraphs 14 to 18 of the report.

**Summary**
This report sets out the recent change in legislation that allow Capital Receipts to fund revenue transformational schemes. Officers have prepared, for Full Council's approval a "Flexible Use of Capital Receipts Strategy" to take advantage of this change in legislation that will assist with mitigating the current revenue budgetary pressures.

**The significant issues in the report are:**
The adoption of this strategy will enable the release of up to £5.3m from revenue reserves set aside for transformational schemes, that can be utilised to partly mitigate the 2016/17 budgetary pressure. These capital receipts were intended to fund the capital programme. This source of finance will be replaced with borrowing that will increase the debt borrowing costs of the authority by some £250k per annum.

**Policy**

1. Not applicable

**Consultation**

2. **Internal**
   **Cabinet**

3. **External**
   None

**Purpose**

4. This report reviews the statutory guidance on the flexible use of Capital Receipts and its application within this authority. As part of the finance settlement for 2016/17 the government announced new flexibilities allowing local authorities to use capital receipts received in 2016/17, 2017/18 and 2018/19 to be used to fund transformational expenditure, which can include redundancy costs.

5. The Council currently assumes £5m per annum capital receipts in its capital financing budgets. In 2016/17, it is currently estimated that receipts will be £5.3m, with at least £15m across 2017/18 & 2018/19.

6. The use of capital receipts to fund restructuring costs (up to the value of those capital receipts), rather than reserves as is currently planned, will allow the release of an estimated £5.3m, which could then be made available to mitigate the financial pressures in this financial year.

**Background**

7. Capital receipts can only be used for specific purposes and these are set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 made under Section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure, and the use of capital receipts to support revenue expenditure is not permitted by the regulations.

8. The Secretary of State is empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.

9. The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts could be utilised. This Direction allows for the following expenditure to be treated as capital;

   *"expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners."*

10. In order to take advantage of this freedom, the Council must act in accordance with the Statutory Guidance issued by the Secretary of State. This Guidance requires the Council to

prepare, publish and maintain a Flexible Use of Capital Receipts Strategy, with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents.

11. There is no prescribed format for the Strategy, but the underlying principle is to support the delivery of more efficient and sustainable services by extending the use of capital receipts to finance costs of efficiency initiatives that deliver significant savings. A list of each project should be incorporated in the strategy along with the expected savings each project is expected to realise.

12. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

13. The proposed Flexible Use of Capital Receipts Strategy is set out below

**Flexible Use of Capital Receipts Strategy**

14. Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

*"Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."*

15. The Council intends to use the following use of capital receipts to fund the following transformation project:

| Project Description | 2016/17 £m | 2017/18 £m | 2018/19 £m |
|---|---|---|---|
| Restructure costs as part of Business Change Programme | 5.30 | 0 | 0 |
| Total | 5.30 | 0 | 0 |

16. The savings generated by these projects are set out in the table below.

| Project Description | 2016/17 £m | 2017/18 £m | 2018/19 £m |
|---|---|---|---|
| Business Change programme | 3.08 | 7.25 | 7.25 |
| Less: Financing | (0.01) | (0.25) | (0.25) |
| Total | 3.07 | 7.00 | 7.00 |

**Impact on Prudential Indicators**

17. The indicators that will be impacted by this strategy are set out below;
    - Estimates of Capital Expenditure Indicator increased by £5.3m
    - Capital Financing Requirement increased by £5.3m as these capital receipts were intended to support schemes within the existing programme that will now be financed by prudential borrowing.
    - Financing costs as a percentage of net revenue stream (%), noting that the savings generated from these projects will meet the debt financing costs arising from the additional borrowing.
    - Incremental Impact on Council Tax / Housing Rents of Capital Investment Decisions - Not relevant as savings will meet the debt financing costs

18. The Prudential Indicators show that this Strategy is affordable and will not impact on the Council's operational and authorised borrowing limits.

**Proposal**

19. That the "Flexible Use of Capital Receipts Strategy" as set out in paragraphs is 14 through to 18 is approved to support the financing of the Council's Business Change Programme in 2016/17.

**Other Options Considered**

20. Not applicable but to note further options are being considered to mitigate the budgetary pressures of the authority, as set out in the monthly monitoring to Cabinet.

**Risk Assessment**

21. As set out in the report.

**Public Sector Equality Duties**

There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

**Legal and Resource Implications**

**Legal**

The Council is under a duty to manage its resources prudently and therefore due consideration must always be given to the financing options available to the authority including adherence to legislation and various regulations.

**(Legal advice provided by Shahzia Daya - Service Director - Legal and Democratic Services)**

**Financial**

**(a) Revenue**

The application of capital receipts to finance transformational revenue costs will increase the prudential borrowing requirement of the authority. The additional debt financing costs of borrowing £5m is some £250k per annum.

**(b) Capital**

The application of capital receipts to finance transformational revenue costs will increase the prudential borrowing requirement of the authority, and reduce the capital financing options of future capital schemes.
**(Financial advice provided by Jon Clayton (Corporate Accountant)**

**Land**
Not applicable

**Personnel**
Not applicable

**Appendices:**
None

**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**
**Background Papers:**
**None**

# Full Council

13 December 2016

Subject to Decision of Cabinet on 6th December 2016

**Report of:** Service Director - Finance

**Title:** Review of Minimum Revenue Provision (MRP) Policy

**Ward:** City Wide

**Member Presenting Report:** Councillor Craig Cheney, Cabinet member for Finance, Governance and Performance

**Contact Telephone Number:** 0117 3521289

**Recommendation**

That Full Council approves the updated Minimum Revenue Revision (MRP) Policy as set out in appendix B of this report.

**Summary**

The Council is required by legislation to set aside funds through a revenue charge for the repayment of borrowing that has been used to finance the capital programme.

The Department of Communities and Local Government (CLG) have issued Regulations which require the full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year with any changes during the year also approved by Full Council.

The Council's MRP policy was created in 2007 and has been in place for 9 years. It is timely that the Council reviews its policy to ensure it remains prudent and provides a stable and deliverable financial position going forward whilst ensuring the prudent management of the Council's finances generally.

**The significant issues in the report are:**

The authority has serious budgetary pressures for 2016/17. A change in the MRP policy will generate medium term revenue savings through re-profiling the provision as set out in appendix A. In this financial year £4.3m will be made available to assist with mitigating the current revenue budgetary pressures.

**Policy**

1. Not applicable

**Consultation**

2. **Internal**
   Cabinet

3. **External**
   None

**Purpose**

4. This report reviews the Council's General Fund minimum revenue provision ("MRP") policy and sets out the proposed change.

**Background**

5. Regulations 27 and 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) require that a local authority "shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent". MRP is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements, often referred as a provision for the repayment of debt.

6. Prior to 2007 the arrangements for determining debt repayment were prescriptive. In 2007, this was replaced by a system of self-regulation that aligns with the prudential code and accounting codes to allow authorities local discretion based on their own judgement as to what is prudent. The Secretary of State has issued statutory Guidance on determining the "prudent" level of MRP, to which authorities are required to have regard.

7. At its meeting on the 6th December, Cabinet determined to refer a proposed change to MRP policy to Full Council. Such a change in policy will free up resources in the short and medium term whilst remaining in accordance with statutory guidance.

**The City Council's objectives in reviewing its MRP Policy**

8. The Council's MRP policy was created in 2007 and has been in place for 9 years. It is therefore timely that the policy is reviewed to ensure it remains prudent, and provides a stable and deliverable financial position going forwards ensuring the prudent management of the Council's finances generally.

9. The Statutory Guidance states that "the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant". It does not stipulate a minimum amount of provision to be made in any particular year, providing that the broad aims above are met. The guidance provides four different annual repayment profiles and encourages authorities to consider their own repayment profiles.

10. The four options are set out below:

- Option 1 - Regulatory Method Normally. Under this option, the former regulations are followed exactly as if they had not been revoked, effectively on annual basis repaying 4% of the outstanding debt (on a reducing balance).

- Option 2 – Capital Financing Requirement (CFR) Method. This option is similar to option 1 but a simpler alternative, so on an annual basis repaying 4% of the outstanding debt (on a reducing balance).

- Option 1 & 2 is primarily for debt supported by government through the Revenue Support Grant system. Supported borrowing by government has ceased from 31st March 2007.

- Option 3: Asset Life Method option is intended for new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed, to make a provision over the estimated life of the asset for which the borrowing relates.

- Option 4: Depreciation Method option is intended for new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed, to make a provision in accordance with the standard rules for depreciation accounting of the asset for which the borrowing relates.

11. Bristol City Council MRP policy currently applies

- Option 2, the CFR method for borrowing supported by Government and
- Option 3, the Asset Life Method for new borrowing under the under the Prudential system for which no Government support is being given.

12. The options are those likely to be most relevant for the majority of authorities but whilst other approaches are not meant to be ruled out, the Council must always have regard to the statutory guidance.

13. There is freedom for authorities to consider an annual profiling of MRP which best fits the prudent management of their own financial circumstances, providing that they meet the basic test of "prudence" which is to repay debt over the life of the benefit or the period implied by the associated grant.

    The proposed change to the Council's MRP policy is described below, and the financial implications are set out in Appendix A. The revised MRP policy Statement is attached at Appendix B.

**Proposed Change**

**Adapting the "Capital Financing Requirement (CFR) Method"**

14. The "CFR Method" is one of the four MRP options and this method is relevant to providing for repayment of debt outstanding prior to 1 April 2007 and that the borrowing supported by Government Revenue Support Grant be repaid over a period "reasonably commensurate with

the period implicit in the determination of that grant". This method continues the arrangements set out in former Regulations, under which non-housing debt was repaid at 4% of the balance outstanding at each year end.

15. The reducing balance formula used by this method has the characteristic that the debt is never entirely repaid, because each year repays 4% of the outstanding balance at that time.

16. As the local government finance system has evolved it has become increasingly difficult to relate the revenue support grant received to any particular level of annual debt repayment. In addition, total grant is controlled nationally which have been reduced substantially in recent years, irrespective of the level of "supported" borrowing outstanding.

17. It is therefore proposed that it would be appropriate, affordable and reasonable that the Council's MRP policy adapt the CFR Method by paying a fixed cash amount each financial year, calculated at 2% of the balance at 31 March 2016, and not reducing each year. This 50 year repayment period is considered a reasonable average assumption as it mirrors the asset lives of the Councils operational property portfolio excluding Council Dwellings. In addition it can be considered that the asset lives will exceed this for assets that are fully maintained.

18. In the initial years, this element of MRP is lower than the 4% reducing balance calculation, but it remains constant and fully repays the remaining balance of pre-2007/08 debt, by 2065/66 - the end of 50 years. Under the CFR method, £28m of this debt would remain outstanding in 50 years' time. The Council's proposed 2% fixed MRP helps to address its short term financial transition needs, whilst in the long run its complete debt is repaid earlier. A fixed 2% MRP over 50 years is considered more prudent than a method which never pays off the whole debt.

19. Although the Council's proposed 2% fixed method initially has a lower debt repayment than the 4% reducing balance method, it is better aligned to the average lives of the assets that the borrowing supports and is consistent with the guidance. It is therefore considered that it would be appropriate, affordable and reasonable for the Council to move to such a provision for 2016/17 and onwards.

20. Appendix A shows the effect of this proposal, in summary the change to this part of the MRP policy produces a long term re-phasing of the Council's debt repayment charges being lower in the years to 2033/34 and higher thereafter. This means debt will be repaid more slowly but repaid within 50 years aligned to the asset lives that the supported borrowing supports.

**Conclusions**

21. The above proposal is considered to be consistent with the statutory duty on the Council to make prudent provision, having regard to the Government Guidance and the advice received. They take into account the Council's strict and cautious approach to MRP to date, and the Council's future financial circumstances

**Proposal**

22. That the "Flexible Use of Capital Receipts Strategy" as set out in paragraphs is 14 through to 19 is approved to assist with mitigating the financial pressures exposed to the general fund revenue position for 2016/17 to ensure a balanced budget for the current financial year.

**Other Options Considered**

23. Not applicable but to note further options are being considered to mitigate the budgetary pressures of the authority, as set out in the monthly monitoring to Cabinet.

**Risk Assessment**

24. As set out in the report.

**Public Sector Equality Duties**

a

25. There are no proposals in this report, which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

**Legal and Resource Implications**

**Legal**

The Council is under a duty to manage its resources prudently and have consideration to legislation and various regulations.

**(Legal advice provided by Shahzia Daya - Service Director - Legal and Democratic Services)**

**Financial**

**(a) Revenue**

The change in MRP policy will initially have a lower debt repayment than the current method (£4.3m lower in 2016/17) and it is better aligned to the average lives of the assets that this borrowing supported. This change in policy will also assist mitigating the financial budgetary pressures.

**(b) Capital**

The change in MRP policy will initially increase the authority's borrowing requirement due to the lower debt repayments. This could potentially reduce amount that the authority can borrow to finance future capital schemes subject to prevailing interest rates.

**(Financial advice provided by Jon Clayton (Corporate Accountant)**

**Land**

Not applicable

**Personnel**

Not applicable

**Appendices:**

A - Revenue impact of the proposed MRP change

B - A revised MRP policy Statement

**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**Background Papers:**

**None**

**Appendix A**

## Revenue impact of the proposed MRP change

| Minumum Revenue Provision | | | | | |
|---|---|---|---|---|---|
| Year | CFR Method (current) | | CFR Adapted Method (Proposed) | | MRP (Saving) / Cost |
| | MRP Charge | Balance O/S | MRP Charge | Balance O/S | |
| | £m | £m | £m | £m | £m |
| 2016/17 | 8.547 | 205.135 | 4.274 | 209.408 | (4.273) |
| 2017/18 | 8.205 | 196.930 | 4.274 | 205.134 | (3.931) |
| 2018/19 | 7.877 | 189.053 | 4.274 | 200.860 | (3.603) |
| 2019/20 | 7.562 | 181.491 | 4.274 | 196.586 | (3.288) |
| 2020/21 | 7.260 | 174.231 | 4.274 | 192.312 | (2.986) |
| 2021/22 | 6.969 | 167.262 | 4.274 | 188.038 | (2.695) |
| 2022/23 | 6.690 | 160.572 | 4.274 | 183.764 | (2.416) |
| 2023/24 | 6.423 | 154.149 | 4.274 | 179.490 | (2.149) |
| 2024/25 | 6.166 | 147.983 | 4.274 | 175.216 | (1.892) |
| 2025/26 | 5.919 | 142.064 | 4.274 | 170.942 | (1.645) |
| 2026/27 | 5.683 | 136.381 | 4.274 | 166.668 | (1.409) |
| 2027/28 | 5.455 | 130.926 | 4.274 | 162.394 | (1.181) |
| 2028/29 | 5.237 | 125.689 | 4.274 | 158.120 | (.963) |
| 2029/30 | 5.028 | 120.661 | 4.274 | 153.846 | (.754) |
| 2030/31 | 4.826 | 115.835 | 4.274 | 149.572 | (.552) |
| 2031/32 | 4.633 | 111.202 | 4.274 | 145.298 | (.359) |
| 2032/33 | 4.448 | 106.754 | 4.274 | 141.024 | (.174) |
| 2033/34 | 4.270 | 102.484 | 4.274 | 136.750 | .004 |
| 2034/35 | 4.099 | 98.385 | 4.274 | 132.476 | .175 |
| 2035/36 | 3.935 | 94.450 | 4.274 | 128.202 | .339 |
| 2036/37 | 3.778 | 90.672 | 4.274 | 123.928 | .496 |
| 2037/38 | 3.627 | 87.045 | 4.274 | 119.654 | .647 |
| 2038/39 | 3.482 | 83.563 | 4.274 | 115.380 | .792 |
| 2039/40 | 3.343 | 80.220 | 4.274 | 111.106 | .931 |
| 2040/41 | 3.209 | 77.011 | 4.274 | 106.832 | 1.065 |
| 2041/42 | 3.080 | 73.931 | 4.274 | 102.558 | 1.194 |
| 2042/43 | 2.957 | 70.974 | 4.274 | 98.284 | 1.317 |
| 2043/44 | 2.839 | 68.135 | 4.274 | 94.010 | 1.435 |
| 2044/45 | 2.725 | 65.410 | 4.274 | 89.736 | 1.549 |
| 2045/46 | 2.616 | 62.794 | 4.274 | 85.462 | 1.658 |
| 2046/47 | 2.512 | 60.282 | 4.274 | 81.188 | 1.762 |
| 2047/48 | 2.411 | 57.871 | 4.274 | 76.914 | 1.863 |
| 2048/49 | 2.315 | 55.556 | 4.274 | 72.640 | 1.959 |
| 2049/50 | 2.222 | 53.334 | 4.274 | 68.366 | 2.052 |
| 2050/51 | 2.133 | 51.201 | 4.274 | 64.092 | 2.141 |
| 2051/52 | 2.048 | 49.153 | 4.274 | 59.818 | 2.226 |
| 2052/53 | 1.966 | 47.187 | 4.274 | 55.544 | 2.308 |
| 2053/54 | 1.887 | 45.300 | 4.274 | 51.270 | 2.387 |
| 2054/55 | 1.812 | 43.488 | 4.274 | 46.996 | 2.462 |
| 2055/56 | 1.740 | 41.748 | 4.274 | 42.722 | 2.534 |
| 2056/57 | 1.670 | 40.078 | 4.274 | 38.448 | 2.604 |
| 2057/58 | 1.603 | 38.475 | 4.274 | 34.174 | 2.671 |
| 2058/59 | 1.539 | 36.936 | 4.274 | 29.900 | 2.735 |
| 2059/60 | 1.477 | 35.459 | 4.274 | 25.626 | 2.797 |
| 2060/61 | 1.418 | 34.041 | 4.274 | 21.352 | 2.856 |
| 2061/62 | 1.362 | 32.679 | 4.274 | 17.078 | 2.912 |
| 2062/63 | 1.307 | 31.372 | 4.274 | 12.804 | 2.967 |
| 2063/64 | 1.255 | 30.117 | 4.274 | 8.530 | 3.019 |
| 2064/65 | 1.205 | 28.912 | 4.274 | 4.256 | 3.069 |
| 2065/66 | 1.156 | 27.756 | 4.256 | .000 | 3.100 |

**Appendix B**

**Proposed Minimum revenue provision (MRP) policy statement**

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

2. The Department of Communities and Local Government (CLG) have issued Regulations which require the full Council to approve an MRP Statement in advance of each year. 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, a change from the MRP statement approved by Full Council on 16th February 2016:

   - For capital expenditure incurred before 1 April 2008 - The MRP policy will be based on the pre 2007/08 borrowing at 2% of the balance at 31st March 2016 fixed at the same cash value so that the whole debt is repaid after 50 years.

   - From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) - The MRP policy will be the Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

     This option provides for a reduction in the borrowing need over approximately the asset's life.

3. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

4. Repayments included in annual PFI or finance leases are applied as MRP.

5. The Council participates in the Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a five year cash advance from the local authority to match the five year life of the indemnity. The cash advance placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position is reviewed on an annual basis.