Appendix D

Review of Policy for Minimum Revenue Provision

Purpose

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

Statutory basis of MRP

2. 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.

3. The Secretary of State has issued statutory Guidance on determining the "prudent" level of MRP, to which authorities are required to have regard. The Guidance is supported by an "informal commentary" from the Department of Communities and Local Government. The Guidance further clarifies that MRP policy should be set by the authority's Full Council (or closest equivalent).

   Link to Informal commentary – https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition

4. Prior to 2007 the Government statutory 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 City Council's objectives in reviewing its MRP Policy

5. The Council's MRP policy was created in 2007 and has been in place for 9 years. Therefore the Council recognises the need to review the policy to ensure it remains prudent and provide a stable and deliverable financial position going forwards ensuring the prudent management of the Council's finances generally (not just MRP).

Principles of MRP: the meaning of "prudent provision"

6. Regulations do not define the meaning of the term "prudent provision". The 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". This general aim 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.

7. The Commentary explains this more fully:

   "Four ready-made options are included in the Guidance (and there are two alternatives under Option 3). The options are those likely to be most relevant for the majority of authorities but other approaches are not meant to be ruled out, provided they are fully consistent with the statutory duty to make prudent provision. Authorities must always have regard to the Guidance, but having done so, may in some cases consider that a more individually designed MRP approach is justified. That could involve taking account of detailed local circumstances, including specific project timetables and revenue-earning profiles. Authorities may wish to consult their legal advisers and external auditors about their approach to MRP if it involves a significant departure from the Guidance or relates to any large, complex or novel schemes. However, the decision on what is prudent is for the authority and it is not for the DCLG to say in particular cases whether any proposed arrangement is consistent with the statutory duty".

   This makes it clear that the four MRP options are by no means prescriptive, providing the authority has regard to the Guidance and complies with the statutory duty to make prudent provision.

8. 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 B. A revised MRP policy Statement is attached at Appendix C.

Proposed Change

Adapting the "CFR Method"

9. 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.

10. 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.

11. 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.

12. It is therefore proposed that it would be appropriate, affordable and reasonable that the Council's MRP policy will 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 this 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.

13. 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-07/08 debt, by 2065/66 the end of 50 years. Under the CFR method, £28m of the pre-07/08 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 arguably significantly more prudent than a method which never pays off the whole debt.

14. 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 this borrowing supported 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.

15. Appendix B 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 with MRP lower in the years to 2033/34 and higher thereafter, meaning debt will be repaid more slowly but repaid within 50 years aligned to the asset lives that the supported borrowing supports.

Conclusions

28. 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.

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

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.