

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

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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 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

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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

Revenue impact of the proposed MRP change

| Year | Minumum Revenue Provision | | | | |
|---------|---------------------------|-------------|-------------------------------|-------------|------------------------|
| | 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.