## Appendix D – Minimum Revenue Provision Statement

### Introduction

1. Where the Council finances capital expenditure by debt there is a statutory requirement to put aside resources to repay that debt in later years. The amount charged annually to the revenue budget for the repayment of debt is known as the Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

2. The CLG Guidance is intended to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The CLG Guidance requires the Council to approve an annual MRP statement of their policy each year, and recommends a number of options for calculating a prudent amount of MRP. The Council, however, is entitled to depart from the Guidance if it has good reason to do so.

3. Currently the Council's annual MRP charge comprises two calculations, one based on debt financed capital expenditure prior to 1st April 2011 and one based on debt financed capital expenditure from 1st April 2011.

4. In respect of debt financed capital expenditure from 1 April 2011, the method currently used by the Council for the Medium Term Financial Plan (MTFP) period is to spread MRP over 10 years, 30 years or 50 years depending on the approximate useful economic life of the asset upon which debt financed capital expenditure is being incurred, starting in the year after the asset becomes operational. For example, capital expenditure incurred during 2017/18 will not be subject to an MRP charge until 2018/19.

~~5.~~ The annuity method makes provision for an annual charge to the General Fund which, unlike the straight line method, takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the annual charges when they fall due.

6. The annuity method enables MRP financing of the Draft Capital Programme to be minimised over the medium term, with higher MRP costs in future years beyond the current MTFP period. There are no proposals to change this existing methodology for MRP in respect of new capital expenditure financed by debt.

7. In respect of debt financed capital expenditure prior to 1st April 2011 since the Council's inception, the 'Regulatory Method' as prescribed by the CLG Guidance has been used for calculating MRP, i.e., a 4% reducing balance of outstanding debt.

8. For assets acquired by finance leases or the Private Finance Initiative, the MRP will be determined as being equal to the element of the rent or charge that goes to write down the Balance Sheet liability.

9. No MRP will be charged in respect of assets held within the Housing Revenue Account.

10. The calculation is reviewed annually by the Council's external auditors as part of the audit of the Statement of Accounts.

11. The proposals in this Appendix D are, in the judgement of the Chief Finance Officer, consistent with the Guidance.

**Proposed changes to the Council's Minimum Revenue Provision Policy**

12. An increasing number of local authorities are revising the MRP policy in respect of their historic outstanding indebtedness, given that the Regulatory Method currently in use applies a reducing balance to the outstanding indebtedness which results in the debt never being completely repaid because each year a charge of 4% is applied to the outstanding balance.

13. For example, if the Council were to continue to apply the current Regulatory Method to its outstanding debt accumulated prior to 1st April 2011, £13.5M of the debt would remain outstanding in 50 years' time.

14. It is the view of the Chief Finance Officer that the omission to make provision for the full repayment of this debt is not the most prudent financial management. The options identified in this Appendix D ensure that all of the debt is repaid over a shorter 50-year finite timeframe, thus conforming to the guidance on prudence.

15. New Government regulations for calculating MRP were introduced by the *Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008*. Under these regulations, the Council started using an annuity method for calculating MRP in respect of capital expenditure incurred after 31st March 2011. Given that these new regulations took effect on 31st March 2008, the Council can choose to retrospectively apply a revised policy for calculating MRP on its historic outstanding indebtedness since its inception from 1st April 2009.

16. Four options have been identified for consideration as follows:

| | Reduced MRP charge in 2016/17 | On-going reductions in MRP until: | Excess sum charged in prior years |
|---|---|---|---|
| Option 1 | £2.1M | 2032/33 | n/a |
| Option 2 | £3.3M | 2037/38 | n/a |
| Option 3 | £1.4M | 2025/26 | £15.1M |
| Option 4 | £3.0M | 2031/32 | £27.9M |

17. Appendix E outlines the MRP charges over the life of the 4 options to fully provide for the repayment of the outstanding debt accumulated prior to 1st April 2011. These differ from the existing MRP charges based on the Regulatory Method where £13.5M of the debt would remain outstanding in 50 years' time. Appendix E also shows the extent of increase or reduction in MRP charge over the life of the 4 options relative to the existing Regulatory Method.

18. The four options can be summarised as follows:

- **Option 1**

  Fixed, straight line MRP charge over 50 years commencing in 2016/17, with the repayment of debt fully provided for over a shorter timeframe. MRP charge reduced by £2.1M in 2016/17, with on-going MRP reductions until 2032/33.

- **Option 2**

  Annuity method MRP charge over 50 years commencing in 2016/17, with the repayment of debt fully provided for over a shorter timeframe. MRP charge reduced by £3.3M in 2016/17, with on-going MRP reductions until 2037/38. Consistent with method used for calculating MRP for debt financed capital expenditure from 1st April 2011.

- **Option 3**

  Fixed, straight line MRP charge over 50 years commencing in 2009/10, with the repayment of debt fully provided for over a shorter timeframe. MRP charge reduced by £1.4M in 2016/17, with on-going MRP reductions until 2025/26. An excess sum of £15.1M charged in the years between 2009/10 and 2015/16.

- **Option 4**

  Annuity method MRP charge over 50 years commencing in 2009/10, with the repayment of debt fully provided for over a shorter timeframe. MRP charge reduced by £3.0M in 2016/17, with on-going MRP reductions until 2031/32. An excess sum of £27.9M charged in the years between 2009/10 and 2015/16. Consistent with method used for calculating MRP for debt financed capital expenditure from 1st April 2011.

**Proposed approach for applying historic MRP overprovision (Option 4)**

19. The Council would need to adopt a prudent approach to this amount and it is proposed to apply it over reasonable timescales to predominantly offset the annual financial impact on the General Fund of the outstanding Private Finance Initiative (PFI) liability and accounting requirements associated with historic rescheduling of Public Works Loan Board (PWLB) loans. These two financing items would absorb £19.8M of the rescheduling item over appropriate timescales and it is proposed to reschedule the remaining amount of £8.1M on a straight line basis over 7 years (number of financial years since the Council was created) to offset the annual MRP from 2016/17 by approximately £1.2M per year.

20. Continuing revenue savings arising from the change in MRP policy must be applied with sensitivity to the Council's long term financial position and should not be used to off set the commitment to deliver ongoing efficiency savings. Instead, it is intended to set aside the resulting reduction in financing charges into an earmarked reserve(s) to be used, for example, to support business transformation, investment in systems and processes that will deliver future benefits, and additions to insurance provisions and other balance sheet items that will strengthen the Council's financial resilience. Flexibility around the use of the reserve will be maintained, as needed.