

Agenda Item No.8 (d)

DERBYSHIRE COUNTY COUNCIL

CABINET

22 November 2016

Report of the Director of Finance

MINIMUM REVENUE PROVISION

(STRATEGIC POLICY, ECONOMIC DEVELOPMENT AND BUDGET)

1 Purpose of the Report

To note a proposed change to the Council's Minimum Revenue Provision Policy.

2 Information and Analysis

Background

Local authorities are required to set aside prudent revenue provision for debt repayment where they have used borrowing or credit arrangements to finance capital expenditure. Statutory Guidance covering Minimum Revenue Provision (MRP) sets out various options and boundaries for calculating prudent provision.

Whilst prudent provision is not specifically defined, the guidance suggests that debt should be repaid over a period that is either commensurate with that over which the capital expenditure provides benefits, or in the case of borrowing supported by Revenue Support Grant, it is reasonably commensurate with the period implicit in the determination of the grant. The guidance, however, provides some flexibility to adopt other methods if a local authority considers that it is prudent to do so. In general the guidance suggests that:

- MRP on all capital expenditure incurred before 1 April 2008, and on expenditure funded by supported borrowing thereafter, is equal to 4% of the opening Capital Financing Requirement with some optional adjustments;
- MRP on expenditure incurred from April 2008 onwards that is funded by unsupported prudential borrowing should be calculated by reference to the asset's useful life, using either a straight line or an annuity method, starting in the year after the asset becomes operational;
- MRP on assets acquired through finance leases and Private Finance Initiative (PFI) should be equal to the cash payments that reduce the outstanding liability each year.

The guidance requires authorities to publish an annual MRP policy statement outlining how prudent provision is to be made. This is set out in the annual Treasury Management Strategy report approved by full Council. The current MPR Policy is set out below:

- To provide 4% of debt outstanding on all debt as at 31 March 2008.
- On any new debt since this date to provide 4% of the balance on all borrowing unless any unsupported borrowing relates to any significant assets with a life of less than 20 years. In this case an annual amount based on the expected useful life of the individual assets is used and where those assets are vehicles then an average life of five years is used

Review of the Policy

The statutory guidance issued by Government allows for alternative methods of establishing prudent provision. A number of local authorities have reviewed their MRP policies as it can deliver significant medium term revenue budget savings. The Revenue Budget Report 2016/17 stated that the Council will review its MRP and anticipated this would release budget reductions of approximately £5.000m.

Revised Proposal

A number of options have been considered and appropriate financial modelling undertaken following advice from the Council's Treasury Management advisors.

It is proposed that the current methodology of a reducing balance of 4% is reduced to 2.5%, thereby assuming average asset lives of 40 years. Assets which are on the Balance Sheet and subject to Private Finance Initiative (PFI) contracts or finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount. For any significant asset with a life of less than 20 years, an annual amount based on the expected useful life of the individual asset is used and where those assets are vehicles the average life of 5 years is used.

The revised Policy will therefore read as follows:

- To provide 2.5% of debt outstanding on all debt as at 31 March 2008.
- On any new debt since this date to provide 2.5% of the balance on all borrowing unless any unsupported borrowing relates to any significant assets with a life of less than 20 years. In this case an annual amount based on the expected useful life of the individual assets is used and where those assets are vehicles then an average life of 5 years is used.

The Policy will be reviewed annually as part of the Treasury Management report considered by full Council.

The Council's external auditors have been consulted on the proposed changes and are minded not to challenge the principles being put forward by the Council for reprofiling of its MRP charge.

3 Financial Considerations

Under the proposed revised MRP Policy, the charge for 2016-17 will be £14.296m, compared to the charge of £20.421m under the current methodology, thereby realising budget reductions of £6.125m. This is £1.125m higher than that anticipated in the Revenue Budget Report 2016-17.

Proposals for use of the additional £1.125m will be considered in the 2017-18 Revenue Budget report to be presented to Cabinet in January 2017.

The Council's Accounting Policies will be updated to reflect the revised Policy and will be considered by Audit Committee in February 2017.

4 Legal Considerations

The statute and regulations with regard to MRP are covered in The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 and the Capital Finance Guidance on Minimum Revenue Provision (February 2012) issued by the Department for Communities and Local Government.

5 Other Considerations

In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

6 Background Papers

Capital Finance Guidance on Minimum Revenue Provision (February 2012) – Department for Communities and Local Government

Papers held in Capital Section, Corporate Finance, Room 139.

7 Key Decision

No

8 Is it necessary to waive the call-in period?

No

9 Officer's Recommendation

That Cabinet notes the proposed change to the Council's MRP Policy and recommends to full Council that the revised Minimum Revenue Provision Policy is approved.

PETER HANDFORD

Director of Finance