Report No: 192/2017
PUBLIC REPORT

CABINET

21 November 2017

MINIMUM REVENUE PROVISION

Report of the Director for Resources

Strategic Aim:	Sound Financial and Workforce Planning	
Key Decision: Yes	Forward Plan Reference: FP/170317	
Reason for Urgency:	N/A	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr Tony Mathias, Leader and Portfolio Holder for Finance and Places (Highways, Transport and Market Towns)	
Contact Officer(s):	Saverio Della Rocca, Assistant Director (Finance)	01572 758159 sdrocca@rutland.gov.uk
	Debbie Mogg, Director for Resources	01572 758358 dmogg@rutland.gov.uk
Ward Councillors	N/A	

DECISION RECOMMENDATIONS
That Cabinet recommends to Council that the MRP policy be changed so that historic debt is charged on an equal instalment basis to the Revenue Account from 1 April 2018.

1 PURPOSE OF THE REPORT

1.1 Local authorities are required to set aside ‘prudent’ revenue provision for debt repayment (MRP) where they have used borrowing or credit arrangements to finance capital expenditure.

1.2 The guidance requires authorities to publish an annual MRP policy statement outlining how prudent provision is to be made. To be valid, the policy statement must be approved by Council.

1.3 This paper recommends a change to part of the existing policy.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 The Prudential Code sets out various options for calculating prudent MRP but does not rule out alternative approaches that are not specifically mentioned.

2.2 Current approach

2.2.1 General Fund debt which was previously supported through the local government finance regime (previously supported borrowing) is worth around £22.7m (as at 31 March 2016). This figure can be split into two elements

- The debt calculated under the previous 'statutory' capital controls regime which ceased on 1 April 2008 - £16.9m

- The debt calculated under the prudential code which started 01 April 2008 - £5.8m – 'new unsupported borrowing'.

2.2.2 For the 'debt calculated under the previous 'statutory' capital controls regime' element of the Capital Financing Requirement i.e. debt previously financed from credit approvals or supported borrowing; namely capital financing costs that were financed as part of the annual local government finance settlement. The MRP charge for 2016/17 is currently estimated to be around £622k.

2.2.3 The charge is calculated by setting aside 4% of the opening balance. In practical terms this means that the charge of £622k today reduces each year. This approach is known as the 'regulatory method'.

2.2.4 The Council uses an alternative method (Asset Life option) for calculating MRP relating to new unsupported borrowing only. It allows the use of a simple formula to calculate a series of equal amounts chargeable over the estimated life of the asset i.e. if we borrow £2m for an asset with a life of 40 years the charge is £50k pa. The total charge per annum for this element of MRP is £274k.

2.2.5 The 'regulatory method' approach to providing MRP is widely applied by many local authorities and is explicitly permitted by CLG's statutory guidance. However, if this option had not been specifically included in the guidance, it is likely it would fail any objective test of 'prudence' for the following reasons:

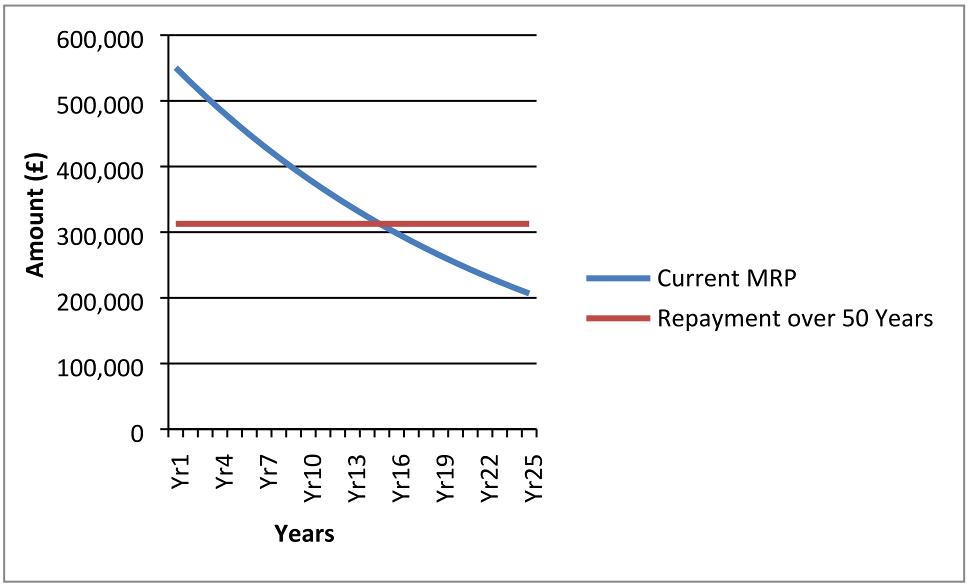
- The 4% calculation is applied on a reducing balance basis. This means the 'debt' that the 4% is applied to is never fully extinguished i.e. the £16.9m of debt referred to in paragraph 2.2.1 will never be repaid;

- The 'needs' based formula for allocating resources through the annual local government finance settlement has been frozen for some time. Subsequent reductions in local government funding have also seen significant reductions in central government support through revenue support grant. This has severed the link between the 'regulatory method' of calculating MRP and the associated funding provided through the local government finance settlement.

2.3 Proposed Approach

2.3.1 Several councils have or are currently reviewing their own MRP policies and some have already adopted an alternative to the 'regulatory method' of calculating MRP for previously supported General Fund borrowing. The alternative method adopted by many would simply provide for the outstanding debt over a 50 year period in equal instalments (2% per annum). On a whole life basis, this approach is arguably more prudent than the 'regulatory method' as it results in this debt being fully extinguished within 50 years.

2.3.2 For Rutland County Council, adopting the 50 year 'Equal Instalments' approach to calculating MRP for previously supported General Fund borrowing results in an annual MRP charge of £313k (£16.0m (estimate positon 2018/19) / 50 years). This results in an MTFP 'saving' of around £237k in 2018/19 and a further £875k over the next 5 years. The chart below plots the impact over the next 25 years.



2.3.3 Savings and Costs for the whole of the 50 year period are shown at Appendix A. From year 15 onwards, the revenue cost of the equal instalments approach to MRP begins to exceed the cost of the current 'regulatory method'. It should be noted that the charge throughout the 50 year period will always be lower than the £622k we paid in 17/18.

2.3.4 Under the equal instalments approach to MRP, previously supported General Fund borrowing is fully extinguished after 50 years but under the current 'regulatory method', some £3.3m of debt remains outstanding as at the same date.

2.3.5 In present value terms, the value of MRP charges under the current 'regulatory method' is around £8.4m. However, under the proposed equal instalments approach the present value of MRP charges is just £8.2m; £0.2m lower. All present value calculations disclosed in this report are based on a 3% discount rate in line with HM Treasury 'Green Book' (appraisal and evaluation) guidance.

2.4 Implementing the change

2.4.1 To enable Rutland County Council to adopt the 'equal instalments' approach to providing for MRP on previously supported General Fund borrowing, it is necessary to revise the Council's MRP policy statement by removing references to the 'regulatory method' of calculating MRP. Subject to approval this will be included in the revised Treasury Management Strategy for 2018/19.

3 CONSULTATION

3.1 No formal consultation is required but the calculation of the MRP charge is audited by the external auditors. They have been consulted about the proposed change and have raised no concerns.

3.2 They did ask whether the change would be applied retrospectively but this is not our intended approach. Some local authorities have done this to generate a "one off" saving but the Council's aim is to spread the charge not specifically deliver savings.

4 ALTERNATIVE OPTIONS

4.1 The Council could continue with its existing approach but this is not recommended as the debt charge would continue indefinitely.

5 FINANCIAL IMPLICATIONS

5.1 The financial implications are set out in Appendix One. There is a short term 'saving' compared to existing MTFP provision.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 Local authorities are required to set aside 'prudent' revenue provision for debt repayment (MRP) where they have used borrowing or credit arrangements to finance capital expenditure as set out in Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414], ("the 2008 Regulations").

6.2 Statutory Guidance covering Minimum Revenue Provision (published February 2012 by the Department for Communities and Local Government) sets out various options and boundaries for calculating prudent provision.

6.3 Whilst 'prudent provision' is not specifically defined, the guidance suggests that debt ought to 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.

6.4 The proposed approach is consistent with the guidance and this has been confirmed by external audit.

7 EQUALITY IMPACT ASSESSMENT

7.1 Equality Impact Screening has been completed. The proposal promotes equality across the council population as all are eligible for the service. No adverse or other significant issues were found.

8 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

8.1 The equal instalments approach to calculating MRP is arguably more prudent than the 'regulatory method' as it results in debt being fully extinguished after 50 years. Under the 'regulatory method' (the current approach), more than £3m of debt remains outstanding in 50 years' time with around half of this figure never being repaid at all. In present value terms, the equal instalments method is also more cost effective than the 'regulatory method' being some £0.2m lower in present value terms.

9 APPENDICES

Appendix A – Detailed 50 year comparison

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.

Appendix A. Detailed 50 year comparison

Net Present Value	8,360,334	8,046,958	

Year	Current MRP	Repayment over 50 Years	(Reduction)/Increase in Charge
Yr1	550,430	312,749	(237,681)
Yr2	528,412	312,749	(215,663)
Yr3	507,275	312,749	(194,526)
Yr4	486,983	312,749	(174,234)
Yr5	467,502	312,749	(154,753)
Yr6	448,801	312,749	(136,052)
Yr7	430,848	312,749	(118,099)
Yr8	413,613	312,749	(100,864)
Yr9	397,068	312,749	(84,319)
Yr10	381,184	312,749	(68,435)
Yr11	365,936	312,749	(53,187)
Yr12	351,297	312,749	(38,548)
Yr13	337,244	312,749	(24,495)
Yr14	323,754	312,749	(11,005)
Yr15	310,803	312,749	1,946
Yr16	298,369	312,749	14,380
Yr17	286,434	312,749	26,315
Yr18	274,975	312,749	37,774
Yr19	263,975	312,749	48,774
Yr20	253,415	312,749	59,334
Yr21	243,278	312,749	69,471
Yr22	233,546	312,749	79,203
Yr23	224,203	312,749	88,546
Yr24	215,234	312,749	97,515
Yr25	206,623	312,749	106,126
Yr26	198,357	312,749	114,392
Yr27	190,422	312,749	122,327
Yr28	182,804	312,749	129,945
Yr29	175,491	312,749	137,258
Yr30	168,470	312,749	144,279
Yr31	161,731	312,749	151,018
Yr32	155,260	312,749	157,489
Yr33	149,049	312,749	163,700
Yr34	143,086	312,749	169,663
Yr35	137,362	312,749	175,387
Yr36	131,866	312,749	180,883
Yr37	126,590	312,749	186,159
Yr38	121,526	312,749	191,223
Yr39	116,664	312,749	196,085
Yr40	111,996	312,749	200,753
Yr41	107,515	312,749	205,234
Yr42	103,214	312,749	209,535
Yr43	99,084	312,749	213,665
Yr44	95,120	312,749	217,629
Yr45	91,314	312,749	221,435
Yr46	87,660	312,749	225,089
Yr47	84,153	312,749	228,596
Yr48	80,786	312,749	231,963
Yr49	77,553	312,749	235,195
Yr50	74,450	312,749	238,299
Total Repayments	**11,972,728**	**15,637,450**	**3,664,722**
Closing Balance	**3,297,662**	**0**	