Full Council	Tuesday, 21 December 2021	Matter for Information and Decision

Report Title: **Review of Minimum Revenue Provision (MRP) Policy**

Report Author(s): **Comie Campbell (Head of Finance / Acting Section 151 Officer)/ Jo Nacey (Senior Finance Strategy Manager)**

Purpose of Report:	The purpose of the report is to provide an update on the review of the Council's MRP Policy and to propose a different methodology.
Report Summary:	The report presents the results of a MRP Policy review with the methodology and legislation which it conforms to. The report also makes a recommendation for a change of MRP Policy which remains prudent but also provides a saving to support the closing of the 22/23 Budget Gap and beyond.
Recommendation(s):	**A. That Council approves the change in methodology; and** **B. That the resulting savings are added to the Medium Term Financial Plan from 2022/23 onwards.**
Responsible Strategic Director, Head of Service and Officer Contact(s):	Comie Campbell (Head of Finance/Acting Section 151 Officer) (0116) 257 2713 Comie.Campbell@oadby-wigston.gov.uk Jo Nacey (Interim Senior Financial Strategy Manager) (0116) 257 2706 Jo.Nacey@oadby-wigston.gov.uk
Corporate Priorities:	Building, Protecting and Empowering Communities Growing the Borough Economically Providing Excellent Services
Vision and Values:	"A Strong Borough Together" (Vision) Innovation (V4)
Report Implications:-	
Legal:	There are no implications arising from this report.
Financial:	The implications are set out in the report.
Corporate Risk Management:	Decreasing Financial Resources (CR1) Effective Utilisation of Assets/Buildings (CR5) Regulatory Governance (CR6) Organisational/Transformational Change (CR8) Economy/Regeneration (CR9)
Equalities and Equalities Assessment (EA):	There are no implications arising from this report. EA not applicable.

Human Rights:	There are no implications arising from this report.
Health and Safety:	There are no implications arising from this report.
Statutory Officers' Comments:-	
Head of Paid Service:	The report is satisfactory.
Chief Finance Officer:	As the author, the report is satisfactory.
Monitoring Officer:	The report is satisfactory.
Consultees:	None
Background Papers:	None
Appendices:	None

1 Introduction

1.1 In February 2012 the Department for Communities and Local Government (now Department for Levelling Up, Housing and Communities (DLUHC) issued guidance regarding the Minimum Revenue Provision (MRP). The latest update of this guidance was published in 2018. These updates gave authorities the opportunity to review their MRP policies and determine whether their existing approaches, which were previously prescribed centrally were still appropriate and whether a new methodology would be more "prudent".

1.2 It has been common practice over recent years for local authorities to revisit their MRP policies with a view to finding savings whilst still maintaining a "prudent" approach which would satisfy their external auditors. The Council has approached its auditors for comments but as yet they have not been received. It is notable that it is for the Council to show that this is a prudent approach, and there is confidence that this is the case. Significant "savings" have been found across many authorities and it is fair to say that a number of authorities are continuing to review their MRP policies, with some pushing the boundaries of prudence in order to close increasingly challenging budget gaps. The proposal to this Council <u>does not</u> deviate from the accepted prudent methodologies.

2 Minimum Revenue Provision (MRP)

2.1 Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or credit arrangements (debt). This means both external and "internal" debt.

2.2 The scheme of Minimum Revenue Provision (MRP) was set out in former regulations 27, 28 and 29 of the Local Authorities Capital Financing and Accounting (England) Regulations 2003. As well as simplifying the system, the update in 2012 shifted the emphasis from regulations to guidance and was intended "to promote development schemes which would have been hindered by the inflexibility of the former regulatory regime". It meant that the onus was passed to authorities to show that their policy was "prudent" and gave some preferred options although there was scope to deviate from these options as long as the deviation remained appropriate and "prudent".

3 Options

3.1 There are four "ready-made" options for calculating MRP as defined by the DLUHC guidance. The Council currently uses an Asset Life method which is directly linked to individual assets for "Unsupported borrowing" based on annuity rates. The "Supported borrowing" is provided for at a rate of 2% (over 50 years), reducing balance. See Section 5.1 re "Supported" and "Unsupported" borrowing.

3.2 These options are not completely restrictive and are still open to interpretation.

Option 1: Regulatory Method. This relates to debt that is "supported" through the Revenue Support Grant system. Under this method MRP is equal to the amount determined in accordance with the former regulations of the 2003 Regulations as if they had not been revoked by the 2008 Regulations.

Option 2: CFR Method. This is a widely used approach whereby the MRP is equal to 4% of the non-housing Capital Financing Requirement (CFR) at the end of the preceding financial year.

Option 3: Asset Life method. There are two sub-methods within this option. The first is an **equal instalment method** which uses straightforward methodology and the guidance makes reference to new borrowing for which there is no Government support. The second sub-method is the **annuity method** which links MRP to the flow of benefits from an asset where the benefits are likely to increase in later years. This can be subjective but may be attractive for projects promoting regeneration or admin efficiencies.

Option 4: Depreciation method. With this method the standard rules for depreciation accounting are observed with a falling MRP revision in relation to the borrowing. This "front-loaded" approach will not suit all authorities and there is a clause that only the proportion of the asset that was financed by debt can be used for the MRP calculation.

4 Approach

4.1 In order to find material savings and also to maintain a prudent approach to Minimum Revenue Provision which adheres to the preferred DLUHC Options, the suggested methodology adopts **Option 3: Asset Life Method.** There are a number of approaches which could be taken in establishing what is an appropriate "asset life" to apply to the calculations. On balance, for this council, <u>the weighted average asset life</u> is a prudent approach and takes into consideration the materiality of each asset and its recorded remaining useful life. The weighted average is then applied to the class of asset and again the weighted average is applied across the whole fixed asset base. In the case of Oadby and Wigston, the weighted average asset life is 34 years.

4.2 This approach gives a robust basis and has been recognised as appropriate by the external auditors in a number of authorities in the past. It also allows for borrowing which is not directly linked to a particular asset. Treasury management procedures mean that the cheapest course of action to fund expenditure is to use the Council's uncommitted cash balances before borrowing externally, due to the poor returns we currently experience with our cash deposits. This means that we may be able to delay borrowing whilst we use our own cash, hence when we do decide to borrow this is not always directly attributable to a specific asset, it may in fact fund a number of assets or capital enhancements to existing assets.

4.3 The Capital Financing Requirement (CFR) is derived from the balance sheet and is published each year in the Statement of Accounts. It equates to the amount of capital financing which is funded by either external or internal borrowing. It is to this CFR figure that MRP is applied. As the proposal is to apply the MRP to the existing CFR based on weighted asset life it is felt that an equal instalment method is more appropriate. An annuity method would provide greater upfront savings to the Council but suggests that assets will create greater income in future years. This is not necessarily the case and therefore the "safer" approach is to take an equal provision each year rather than a back-loaded approach which may bring unmanageable pressures to the Council in future years.

2022/23 Provisional Figures (before Capital Programme additions)	**(A) CFR £**	**(B) Existing Methodology MRP Cost £**	**(C) New Proposed Methodology MRP Cost (£) Option 3 – Asset Life Method (A)/34 Years £**	**Variance/ Saving £**
Supported Borrowing	2,591,167	51,823	51,823	0
Unsupported Borrowing	14,184,131	820,509	417,180	403,329
Total	**16,775,299**	**872,333**	**469,003**	**403,329**

5 Conclusion and Approval

5.1 The methodology suggested would bring an initial estimating saving in 2022/23 of £403,329 based on the current projection for CFR in 22/23, before the capital programme is updated. It is proposed that the "supported borrowing" methodology which relates to pre-2008 borrowing remains as is. Post 2008 borrowing, unsupported, would adopt the new methodology. The saving on the existing budget for 21/22 (the base budget £852,100) is £383,097, as shown in the budget papers.

5.2 The recommendation is therefore to move to the weighted asset life method, to take advantage of this saving, which is both substantial and <u>ongoing</u> which assists in balancing the Council's budget whilst maintaining a prudent approach to capital financing.