Policy, Finance and Development Committee	Tuesday, 05 December 2023	Matter for Information and Decision

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

Report Author(s): Bev Bull (Head of Finance / Acting Chief Finance Officer - S151)

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 change in the MRP methodology. The report also presents a revised MRP Policy for approval to allow for the change in methodology to be implemented.
Report Summary:	The report presents the results of a MRP Policy review and makes a recommendation for a change in the MRP Policy which remains prudent and in accordance with Statutory Guidance but also provides a saving to reduce the budget overspend in 23/24 and supports reducing the budget gap for 24/25 and beyond.
Recommendation(s):	**That the Committee:** **1.** Recommend to Council to approve the change in MRP methodology; and **2.** Recommend to Council to approve the revised MRP Policy to enable the change in methodology to be implemented.
Senior Leadership, Head of Service, Manager, Officer and Other Contact(s):	Sal Khan (Interim Strategic Director) (0116) 257 2690 sal.khan@oadby-wigston.gov.uk Bev Bull (Head of Finance / Acting Chief Finance Officer - S151) (0116) 257 2649 bev.bull@oadby-wigston.gov.uk
Corporate Objectives:	Providing Excellent Services (CO3)
Vision and Values:	"Our Borough - The Place To Be" (Vision) Resourceful & Resilient (V4)
Report Implications:-	
Legal:	There are no implications directly arising from this report.
Financial:	The implications are as set out in this report.
Corporate Risk Management:	Decreasing Financial Resources / Increasing Financial Pressures (CR1) Reputation Damage (CR4) Effective Utilisation of Assets / Buildings (CR5)
Equalities and Equalities Assessment (EA):	There are no implications directly arising from this report. EA not applicable
Human Rights:	There are no implications directly arising from this report.

Health and Safety:	There are no implications directly 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:	DLUHC Statutory Guidance on Minimum Revenue Provision
Appendices:	1. Comparison on MRP Methods 2. Minimum Revenue Provision Statement 2023/24 (Revised November 2023)

1. Background

1.1 The Minimum Revenue Provision (MRP) is the means by which capital expenditure which is financed by borrowing is paid for by the revenue account. Local Authorities are required each year to set aside some of their revenues as provision for repayment of this debt. This means both external and "internal" debt. The method for determining the amount to be set aside is determined by the MRP Policy.

1.2 The requirements to make MRP and to have an MRP policy is to comply with the Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under the Local Government Act 2003.

1.3 The Guidance states that Local authorities can vary the methodologies that they use to make prudent provision during the year. If they do so they should present a revised MRP Policy to the next full Council or equivalent.

2. MRP Approach

2.1 The Council's borrowing is split into "Supported borrowing" which is pre 2008 debt and "Unsupported Borrowing" which is post 2008 debt. The methodology for MRP on the "supported borrowing is at a rate of 2% (over 50 years), reducing balance. No change is proposed to the method for "Supported" borrowing.

2.2 The Council currently uses an Asset Life method which is based on a weighted average asset life, which is currently 32 years and based on an equal instalment method for "Unsupported Borrowing". An alternative to this approach is to move from the equal instalment method to an annuity method. Using an annuity method results in lower charges in earlier years with the charge increasing year on year and higher charges in later years. Over the asset life the total charge under both equal instalment and annuity methods remains the same.

2.3 In cash terms the equal instalment method gives an equal charge and the annuity method an increasing charge. If the time value of money is taken into account, where the principle is that having £1 now is worth more than a £1 in the future, the equal instalment method is actually higher in the early years and reducing year on year meaning todays Council Tax payers are subsidising future generations by effectively paying more. Whereas taking into account the time value of money on the annuity method, the charge is equal over the years and todays Council Tax payer are effectively paying the same as future generations who are all equally gaining from the use of the assets, it can therefore be deemed a fairer and more prudent approach.

2.4 A comparison of the year-by-year charge under both the equal instalment method and the annuity method is set out in Appendix 1. Moving to an annuity method generates £280k saving in 2023/24 and £270k in 2024/25, with the saving reducing year on year until in 19 years' time the costs would start to increase above the equal instalment method cost.

2.5 The annuity approach is used by many authorities and has been accepted as an appropriate and robust basis. The change has been initially discussed with the External Auditors who agreed with the change in principle, pending reviewing the detailed workings and revised policy.

2.6 The recommendation is therefore to move to the annuity method, noting it is more prudent for the taxpayers and delivers a substantial savings in the current and future years. Recognising that charges will increase year on year and in later years the charges will be higher than equal instalment method, but noting funding should also be increasing by inflation to reduce the impact of this. The revised MRP policy is included at Appendix 2.