

**Blaby District Council
Council**

Date of Meeting	20 September 2022
Title of Report	Recommendations of the Cabinet Executive: Review of Minimum Revenue Provision Policy This is not a Key Decision and is on the Forward Plan
Lead Member	Cllr. Maggie Wright - Finance & Assets (Deputy Leader)
Report Author	Strategic Finance Manager
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

- 1.1 This report sets out a proposal to change the Council's Minimum Revenue Provision (MRP) policy.

2. Recommendation(s) to Cabinet Executive and Council

- 2.1 That the revised MRP Policy Statement for 2022/23 at Appendix B is approved.

3. Reason for Decisions Recommended

- 3.1 To take the opportunity to move to a more suitable and cost effective method for calculating MRP, whilst ensuring that it remains prudent and complies with the MRP Guidance.

4. Matters to consider

4.1 Background

The Local Government Act 2003 requires the Council to “pay off” an element of accumulated capital expenditure financed through borrowing each year, through a revenue charge known as the Minimum Revenue Provision (MRP).

In determining its annual MRP, the Council must have regard to the current MRP Guidance issued in 2018 by the Ministry for Housing, Communities and Local Government (MHCLG), now renamed the Department for Levelling Up, Housing and Communities (DLUHC). The guidance provides four ready-made options for determining a prudent MRP charge, but alternative approaches are not ruled out.

The overriding principle behind the guidance is to set a prudent provision which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The Council must prepare an annual MRP Policy in respect of the forthcoming financial year, and this must be submitted to full Council for approval as part of the budget setting process.

The government has recently consulted on changes to the 2003 MRP regulations with an intention to make explicit that:

1. Capital receipts may not be used in place of the revenue charge, and
2. There should be no intentional exclusion of debt from the MRP determination on the grounds that it relates to an investment asset or capital loan.

The proposed changes are expected to be implemented in April 2024, but they are not expected to have a significant impact on Blaby.

4.2 Proposals

A review of the Council's existing MRP policy was recently undertaken with the support of Link, the Council's treasury advisors. The objective of the review was to identify opportunities to move to a more suitable and cost effective MRP strategy, whilst ensuring that the resultant provision remains prudent and compliant with prevailing statutory guidance. In this context, prudence does not necessarily mean the quickest possible repayment period but will also have regard to the Council's overall financial planning and the flow of benefits from the capital expenditure.

Supported Borrowing & Historic Debt

The Council's current MRP policy for supported borrowing and historic debt prior to 2008, is calculated on a 4% reducing balance basis. An alternative method has been identified whereby MRP would be calculated using an annuity approach over 50 years. This is more prudent than the current method because it would ensure that the current debt liability is repaid within a shorter time frame than under the existing method. Using the current 4% reducing balance method, after 50 years 13% of the current outstanding debt liability will remain outstanding.

Unsupported Borrowing

The current method for calculating MRP on unsupported borrowing uses a straight-line approach over the estimated life of the asset. By using an annuity calculation over the weighted average asset life, the Council would benefit from a reduction in MRP in the near term. It can be argued that this change would result in a fairer charge than the current method because it results in a consistent charge over the asset's life, considering the time value of money.

It should be noted that the change in MRP policy cannot be applied retrospectively, so the earliest that the new proposals can be implemented is 2022/23. In overall terms, MRP will not be reduced by changing the policy, but the phasing of any future charges will produce MRP savings in the near term and will better reflect the time value of money. MRP charges in the longer term will inevitably be higher than under the current method but the Council also has the option to use Voluntary Revenue Provision as a way of smoothing the profile of charges across a period of time. This is explained in more detail in the following paragraph.

4.3 Voluntary Revenue Provision

The MRP Guidance permits authorities to make an additional provision in addition to the prudent amount calculated under their policy, in any given year. This is known as Voluntary Revenue Provision (VRP). Any VRP provided in year, along with the total cumulative amount of MRP overpaid in previous years, should be disclosed in the MRP Policy Statement presented to full Council. The Council can choose to offset an amount of VRP against any current or future year's MRP charge, providing that the resulting net MRP charge in the year is not negative.

This gives the Council the flexibility to set aside some of the savings created by the proposed change in MRP policy, as VRP. By doing so this can be used to offset increases in the profile of charges in the future.

The extent to which the Council chooses to apply VRP is a matter that can be reviewed on an annual basis and is not something to which the Council needs to commit itself upfront.

5. **What will it cost and are there opportunities for savings?**

- 5.1 The full financial impact is provided within Appendix A. The following table sets out the potential MRP savings in the first 5 years following implementation of the proposed changes, excluding any VRP that the Council may choose to set aside.

Year	Current Policy £'000	Proposed Policy £'000	(Saving)/Cost £'000
2022/23	1,111	413	(698)
2023/24	1,059	425	(634)
2024/25	1,012	436	(576)
2025/26	982	448	(534)
2026/27	940	460	(480)
5 Year Total	5,104	2,182	(2,922)

Please note that the figures included in the table above relate to capital expenditure up to and including 2021/22. A similar calculation will need to be performed for capital expenditure incurred in each future financial year, but the principles referred to in this report will be the same.

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
Proposed changes to the MRP Policy will lead to a higher Capital Financing Requirement and borrowing requirement than under the current method.	The associated cost will depend upon the Council's treasury position and interest rates in force at the time the MRP is determined for future years. Regulations allow us to review the policy every year; the impact of the revised policy will be kept under regular review to ensure that the annual provision remains prudent.
Challenge from the external auditors.	The Council has a duty to set a prudent MRP but has flexibility to determine how it does so. Data collected by Link suggests that over 60% of English local authorities use some form of annuity method to determine their MRP.

7. Other options considered

- 7.1 The first option is not to change our MRP Policy. Whilst there is no additional cost to the Council in keeping the policy unchanged, the current calculation methods are considered to be less prudent than the annuity methods proposed.

There are also alternative annuity methods that could be adopted, using different approaches to estimating asset lives, but the options proposed in this report give the greatest flexibility, consistency and better reflects the time value of money.

The proposed MRP Policy Statement for 2022/23 appears at Appendix B.

8. Environmental impact

- 8.1 In preparing this report, the author has considered the impact on the Environment, and there are no areas of concern.

9. Other significant issues

- 9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

10.1 Appendix A – Comparison of MRP under the current policy with the proposed policy.

10.2 Appendix B – Proposed MRP Policy Statement for 2022/23

11. Background paper(s)

11.1 None

12. Report author's contact details

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