Agenda Item No:

Report to: **Cabinet**

Date of Meeting: **30 January 2023**

Report Title: **Minimum Revenue Provision method change 2022-23**

Report By: **Simon Jones**
Deputy Chief Finance Officer

Purpose of Report

This report has been produced to support the Council's proposed changes in Minimum Revenue Provision (MRP) calculation methods.

Recommendation

Cabinet is asked to recommend the following to full Council:

1) The MRP method for supported borrowing is revised to the annuity method using average PWLB rate for the year (01/04/2022 to 31/03/2023).
2) The MRP method for unsupported borrowing is revised to the annuity method using average PWLB rate for the year (01/04/2022 to 31/03/2023) weighted combined basis.
3) That the revised MRP Policy Statement shown at Appendix C is approved for 2022/23.
4) That the revised MRP Policy Statement shown at Appendix C becomes the default MRP Policy for the Council going forward pending annual review as part of the Treasury Management Strategy.

Reasons for Recommendations

These revisions to the methods for calculating MRP will result in reduced charges to the General Fund revenue account helping to reduce costs and preserve vital local services at a time when budgets are under severe pressure. The in-year savings made can be taken now to reduce the MRP charge, and hence pressure on the budget, used to make Voluntary Revenue Provision (VRP) charges that can be used to offset MRP charges in future years to alleviate budget pressures then or a combination of the two approaches.

The changes will also align the Council's policy to what is considered best practice by CIPFA and is determined as more prudent. It is also considered fairer to Taxpayers as it results in the debt liability being repaid earlier and doesn't leave future generations to foot the bill for assets that were purchases many years ago where the economic benefits have been fully consumed.

Background

1. Minimum Revenue Provision (MRP) for Debt Repayment

1.1. In accordance with the Local Authorities (Capital Finance and Accounting) (England) regulations 2003, the Authority is required to pay off an element of accumulated General Fund capital expenditure financed from borrowing through an annual revenue charge known as the Minimum Revenue Provision (MRP).

1.2. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the Authority to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued by MHCLG (now renamed DLUHC) in 2018. The Guidance gives four ready-made options for determining MRP which it considers to be prudent but does not rule out alternative approaches.

1.3. The overriding requirement of 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.

1.4. The Guidance requires that before the start of each financial year the Authority prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to full Council for approval.

1.5. The Guidance allows the Authority to change the MRP policy at any time during the year.

1.6. The Government has recently consulted on changes to the MRP regulations with an intention to make explicit that (i) capital receipts may not be used in place of the revenue charge, and (ii) there should be no intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Following the consultation, the government issued a further survey seeking views on further proposed amendments to the MRP regulations that would provide additional flexibilities with respect to capital loans. The proposed changes along with updated MRP Guidance are anticipated to be implemented in April 2024 but they are not expected to have a major impact for this Authority.

Proposal

2. Proposed updated method for calculating MRP

2.1. A review of the Authority’s MRP policy was recently undertaken by Link Group (Link). The objective of the review was to identify opportunities to move to a more suitable and cost effective MRP strategy whilst ensuring that the provision remains prudent and compliant with statutory guidance. The review has identified various options which could be implemented within statutory guidance and the Authority has chosen within these options to adopt the most suitable approach.

2.2. The Authority’s current MRP policy for supported borrowing prior to 2008 is calculated on a 4% reducing balance method including a reduction for Adjustment A. The alternative options identified are for MRP to be calculated using either the straight-line method or an annuity method over 50 years. A change to an annuity method can be seen as more prudent than the current method because the debt liability will be repaid in a much shorter time. The write-down period using the annuity method over 50 years will repay the debt liability faster than the current reducing balance method which will take over 100 years.

2.3. The Authority’s current MRP policy for unsupported borrowing is the asset life method in accordance with the MRP guidance. The guidance allows either a straight-line or annuity approach to be used for calculating MRP when using the asset life method. The Authority currently uses the straight-line method. The Authority could alternatively use an annuity method over the asset life, having the benefit of a reduction in MRP charges in the near term.

2.4. A change to use the annuity method for both supported and unsupported borrowing would be a change in the method of calculating MRP rather than a change in policy. The current policy provides for either a straight-line or annuity approach to be applied, in line with the MRP guidance. An annuity method is considered as prudent as the straight-line method since the asset lives currently being used will not be changed. It can be argued that the annuity method provides a fairer charge than the straight-line method since it results in a consistent charge over the asset’s life, considering the time value of money.

2.5. Link have carried out extensive research on current MRP policies in England and have observed that the annuity method of calculating MRP on unsupported borrowing is used by over 50% of Authorities throughout the country.

2.6. It is recommended that the Authority considers implementing these options, for which the MRP savings for the first 5 years is shown below, and the full financial impact of the proposed change is provided in Appendices A and B.

Supported borrowing (Appendix A)

Option 1c – annuity using Average PWLB rate for the year (01/04/2022 to 31/03/2023)

Year	Original charge £'000	Revised charge £'000	(Saving) / Cost £'000
2022/23	121	21	(100)
2023/24	116	21	(95)
2024/25	112	22	(90)
2025/26	107	23	(84)
2026/27	103	24	(79)
5y TOTAL			**(448)**

Unsupported borrowing (Appendix B)

Option 2d – annuity using PWLB average rates for the year (01/04/2022 to 31/03/2023): weighted combined basis

Year	Original charge £'000	Revised charge £'000	(Saving) / Cost £'000
2022/23	1,586	819	(767)
2023/24	1,620	851	(769)
2024/25	1,642	886	(756)
2025/26	1,631	921	(710)
2026/27	1,642	958	(684)
5y TOTAL			**(3,686)**

2.7. The impact of the changes are:

- The annuity method of calculating MRP can be seen as a more prudent basis for providing for capital expenditure which provides a steady flow of benefits over their useful life.
- It can provide a fairer charge than a straight-line methodology as it provides a consistent charge over an asset's life when considering the time value of money.
- It provides a charge that is better matched to how the benefits of the asset financed by borrowing are consumed over its useful life. That is, a method that reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years.
- A weighted average method of calculation is a much simpler calculation than the current method, providing for more concise and user-friendly working papers.
- The proposed changes will lead to the Capital Financing Requirement in the short-term reducing more slowly than under the Authority's current MRP policy. The potential costs will depend on the Authority's treasury position, and potential changes in spending that may occur as a result of revenue savings.

2.8. Whilst the proposed changes to the MRP calculation methodology do not constitute a change in MRP policy, the Authority could update the wording in the MRP policy to make the methodology used more explicit. The updated MRP policy is shown at Appendix C.

2.9. The MRP guidance allows the Authority to review its MRP policy every year and set a policy that it considers prudent at that time. The impact of the revised MRP calculation methodology will be kept under regular review to ensure that the annual provision is prudent.

Timetable of Next Steps

1. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Review and revise Annual Treasury Management Strategy & Capital Strategy	Setting of 2024/25 Budget	February 2024	Deputy Chief Finance Officer
Treasury Management Outturn Report to Cabinet	Close of 2023/24 accounts	July 2024	Deputy Chief Finance Officer

Wards Affected

None

Area(s) Affected

None

Implications

Relevant project tools Applied? N/A

Climate change implications considered? N/A

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	No

Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix A: MRP Policy change full calculations – Supported borrowing
Appendix B: MRP Policy change full calculations – Unsupported borrowing
Appendix C: Minimum Revenue Provision (MRP) Policy Statement 2022-23

Treasury Management Strategy 2023-24 (Appendix 1: MRP An Introduction)

Officer to Contact

Kit Wheeler
Chief Finance Officer
kit.wheeler@hastings.gov.uk

Simon Jones
Deputy Chief Finance Officer
simon.jones@hastings.gov.uk

Appendix A – MRP Policy change full calculations – Supported borrowing

Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2022/23	121	21	(100)	(97)
2023/24	116	21	(95)	(89)
2024/25	112	22	(89)	(81)
2025/26	107	23	(84)	(73)
2026/27	103	24	(79)	(66)
2027/28	99	25	(74)	(60)
2028/29	95	26	(69)	(54)
2029/30	91	27	(64)	(49)
2030/31	87	28	(59)	(44)
2031/32	84	29	(55)	(39)
2032/33	80	30	(50)	(34)
2033/34	77	31	(46)	(30)
2034/35	74	33	(42)	(27)
2035/36	71	34	(37)	(23)
2036/37	68	35	(33)	(20)
2037/38	66	36	(29)	(17)
2038/39	63	38	(25)	(14)
2039/40	60	39	(21)	(11)
2040/41	58	41	(17)	(9)
2041/42	56	42	(13)	(7)
2042/43	54	44	(9)	(5)
2043/44	51	46	(6)	(3)
2044/45	49	48	(2)	(1)
2045/46	47	49	2	1
2046/47	45	51	6	2
2047/48	44	53	10	4
2048/49	42	55	13	5
2049/50	40	58	17	7
2050/51	39	60	21	8
2051/52	37	62	25	9
2052/53	36	64	29	10
5053/54	34	67	33	11
2054/55	33	70	37	12
2055/56	31	72	41	13
2056/57	30	75	45	13
2057/58	29	78	49	14
2058/59	28	81	53	15
2059/60	27	84	57	16
2060/61	26	87	62	16
2061/62	25	91	66	17
2062/63	24	94	71	17
2063/64	23	98	75	18
2064/65	22	102	80	18

Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2065/66	21	106	85	19
2066/67	20	110	90	19
2067/68	19	114	95	19
2068/69	19	118	100	20
2069/70	18	123	105	20
2070/71	17	128	111	21
2070/72	16	133	116	21
Years 51+	393	0	(393)	(38)
	3,026	**3,026**	**0**	**(526)**

Appendix B – MRP Policy change full calculations – Unsupported borrowing

Financial year	Current repayments £'000	Revised repayments £'000	(Reduction)/ cost £'000	NPV £'000
2022/23	1,586	819	(767)	(741)
2023/24	1,620	851	(769)	(718)
2024/25	1,642	886	(756)	(682)
2025/26	1,631	921	(710)	(619)
2026/27	1,642	958	(684)	(576)
2027/28	1,552	996	(556)	(452)
2028/29	1,524	1,036	(488)	(384)
2029/30	1,522	1,078	(444)	(337)
2030/31	1,526	1,121	(406)	(298)
2031/32	1,519	1,166	(354)	(251)
2032/33	1,539	1,212	(327)	(224)
2033/34	1,486	1,261	(225)	(149)
2034/35	1,493	1,311	(182)	(116)
2035/36	1,479	1,364	(115)	(71)
2036/37	1,484	1,418	(66)	(39)
2037/38	1,501	1,475	(26)	(15)
2038/39	1,515	1,534	19	11
2039/40	1,536	1,596	60	32
2040/41	1,560	1,660	99	52
2041/42	1,585	1,726	141	71
2042/43	1,611	1,795	184	89
2043/44	1,623	1,867	244	115
2044/45	1,648	1,942	293	133
2045/46	1,672	2,020	348	152
2046/47	1,690	2,100	410	174
2047/48	1,717	2,185	468	191
2048/49	1,719	2,272	553	218
2049/50	1,742	2,363	621	237
2050/51	1,745	2,458	712	263
2051/52	1,774	2,556	782	279
2052/53	1,773	2,658	886	305
2053/54	1,805	2,765	960	319
2054/55	1,840	2,875	1,035	333
2055/56	1,854	2,991	1,137	353
2056/57	1,891	3,110	1,219	366
2057/58	1,628	3,235	1,607	466
2058/59	1,119	0	(1,119)	(313)
2059/60	527	0	(527)	(143)
2060/61	327	0	(327)	(86)
2061/62	286	0	(286)	(72)
2062/63	275	0	(275)	(67)
2063/64	281	0	(281)	(66)
2064/65	283	0	(283)	(64)

Financial year	Current repayments £’000	Revised repayments £’000	(Reduction)/ cost £’000	NPV £’000
2065/66	290	0	(290)	(64)
2066/67	297	0	(297)	(63)
2067/68	293	0	(293)	(60)
2068/69	301	0	(301)	(60)
2069/70	309	0	(309)	(59)
2070/71	317	0	(317)	(59)
2071/72	0	0	0	0
	63,581	**63,581**	**0**	**(2,691)**

Appendix C

Minimum Revenue Provision (MRP) Policy Statement 2022-23

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the Authority to calculate a prudent provision of MRP whilst having regard to the current MRP Guidance (2018). The broad aim of prudent provision is to ensure that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The Guidance gives four ready-made options for calculating MRP but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full Council approval in advance of each financial year.

It is recommended that Council approves the following MRP Policy Statement.

- Supported borrowing incurred before 1st April 2008 will apply the Asset Life Method using an annuity calculation over 50 years.
- Unsupported borrowing will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the estimated useful life of the assets. An annuity method will be applied for the MRP calculation.
- The interest rate applied to the annuity calculations will reflect the market conditions at the time. For the current financial year the interest rate used will be average PWLB rate for the year (01/04/2022 to 31/03/2023).
- MRP will commence in the financial year following the one in which the expenditure was incurred, or in the year after the asset becomes operational.
- MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the MRP guidance.
- MRP in respect of assets acquired under PFI or Finance Leases will be charged at a rate equal to the principal element of the annual lease rental for the year in question.
- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory MRP, i.e. voluntary revenue provision (VRP) or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The VRP overpayments up to 31st March 2022 are £0.
- On an annual basis the Section 151 Officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Authority's circumstances at that time, taking into account medium / long

term financial plans, current budgetary pressures, current and future capital expenditure plans. Dependant on this review the Section 151 officer will adjust the annual MRP charge by making VRP or reclaiming previous VRP. The amount of MRP charged shall not be less than zero in any financial year.