WIRRAL

CABINET

25 NOVEMBER 2019

MINIMUM REVENUE PROVISION RE-PROFILING

Councillor Janette Williamson, Cabinet Member for Finance and Resources, said:

“We continue to face huge financial pressures, as increasing demand, rising costs and ongoing austerity policies combine to place unprecedented strain on our budget, and services. This is an excellent example of how, when we need to look to new and innovative ways to provide services, we are able to continue to find new ensure this Council is in a position to protect our most vulnerable.”

REPORT SUMMARY

The Authority’s treasury management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“the Code”).

Proactive Treasury Management activity – working in conjunction with external advisors - has resulted in a proposal to change the way that the Council calculates its Minimum Revenue Provision (MRP).

This proposal to change the method of calculation results in a re-profiling of MRP charges - rather than a permanent reduction in MRP charges - and flows from the inclusion of long-term debtors and deferred charges in the calculation for the first time, as now permitted under statutory guidance.

RECOMMENDATION/S

That Cabinet endorse the proposal to re-profile MRP charges resulting in a reduction of MRP charges by over £2m pa over the next ten years, recouped via higher charges in subsequent years - and recommends it to the Council for approval.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

1.1 Under statutory guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003, a Local Authority may change the method(s) that it uses for calculating part or all of its MRP at any time.

1.2 Where a Council changes the method used to calculate MRP, this should be explained in an Annual Minimum Revenue Provision Statement, submitted to full Council for approval at the start of the financial year, explaining why the change will better allow it to make prudent provision.

1.3 The proposal included in this paper, to effectively re-profile MRP charges, was only finalised in October 2019 due to the timing of external advice received on this matter and the need for discussion with Grant Thornton, the Council's auditors during the 18/19 audit process. As such, this report is in addition to the Annual Minimum Revenue Provision Statement presented at the start of the financial year.

2 OTHER OPTIONS CONSIDERED

2.1 Other options considered include:

- Leaving the MRP calculation unchanged; and
- Spreading the benefit of re-profiling over an alternative time period to the ten years recommended in this report.

2.2 Given that the Council can legitimately change the method of MRP calculation to one which, in this case, results in lower MRP charges in earlier financial years than had previously been anticipated, the option of leaving the MRP calculation unchanged has been discounted.

2.3 Spreading the benefit of re-profiling over the next ten years – enabling taxpayers to benefit in earlier years - is considered to be reasonable and prudent and aligns with time periods selected by other Councils.

2.4 Recognising the full benefit of re-profiling MRP charges immediately (ie in a single financial year), rather than spreading the benefit over the next ten years is not an option. This would effectively create a negative MRP charge which would not be in line with statutory guidance.

2.5 In producing the first draft of the Statement of Accounts, it was initially proposed to hold the whole amount of MRP available for re-profiling in a separate Earmarked Reserve within General Fund Reserves, for gradual release in future years. This treatment effectively transferred £26.36m from the Capital Adjustment Account (forming part of Unusable Reserves) into General Fund Reserves (forming part of Useable Reserves). However, this treatment was reversed in the second draft of the Statement of Accounts following discussion with the auditors. This means that the whole balance of MRP available for re-profiling will remain within the Capital

Adjustment Account, from where it is proposed that it will be released over the next ten years.

3.0 BACKGROUND INFORMATION

3.1 Where the Council finances capital expenditure by debt, resources must be put aside to repay that debt in later years. The amount charged to the General Fund for the repayment of debt is known as Minimum Revenue Provision (MRP) and is based on the Capital Financing Requirement (CFR) of the Council.

3.2 The Minimum Revenue Provision is an annual charge that Councils which are not debt free are required to make in their accounts for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt). The underlying debt is needed to finance the capital programme. It is, therefore prudent to charge an amount for the repayment of debt (usually over the life of the asset), allowing borrowing to be matched to asset lives. Setting aside an amount for the repayment of debt, through an annual Minimum Revenue Provision, allows for future borrowing to be taken out to finance assets when they need to be replaced at no incremental cost.

3.3 Under Regulation 27 of the 2003 Regulations, Local Authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that Local Authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is ‘prudent’. In calculating a prudent provision, Local Authorities are required to have regard to Ministry of Housing, Communities and Local Government (MHCLG) guidance, entitled ‘Capital Finance: Guidance on Minimum Revenue Provision (Fourth Edition) - as last updated on 2 February 2018.

3.4 The broad aim of the MHCLG guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3.5 The Council commissioned a review of its MRP provision by Link Asset Services in March 2019. The purpose of this review was to consider the appropriateness of the MRP calculation for the repayment of the underlying debt liability and to assess any options that could generate a short to medium term benefit to the General Fund. Only options considered prudent and fully compliant with statutory guidance would be considered.

3.6 Based on calculations provided by Link Asset Services, the Council has estimated that it has an historic amount of MRP available for re-profiling of c £26.36m, primarily due to the exclusion of long-term debtors and deferred charges from Capital Financing Requirements. This is made up of:

- £21.451m – in respect of transferred debt liability, taken over by the Authority in 1988 following the demise of the Merseyside County Council. This calculation is based on an annual saving of £4.469m pa at 4% pa on an accumulating basis; and

- £4.909m – in relation to other long-term debtors and deferred charges of £8.182m at 4% pa for 15 years.

3.7 Changes to MRP charges resulting from the above cannot be made retrospectively. As such, future charges will be reduced to reflect re-profiling of this £26.36m over a proposed ten-year period starting in 2019/20.

3.8 While the amount of MRP required will not change in total over the life of current capital investments, the profile will change as a result of this proposal. This results in lower charges in the next ten years than would otherwise have been experienced, followed by higher charges in later years.

3.9 The first reduction in MRP charges will be made in 2019/20, at a value of £2.63m. Thereafter the amount of the annual reduction will gradually reduce over the ten year period to £2.17m by year 10 – as set out in the table in Appendix 1. This gradual reduction in the expected benefit is due to the MRP re-profiling reduction leading to a higher Capital Financing Requirement in future years than would otherwise have been the case. MRP charges beyond the initial ten year period then start to increase but the total MRP charge remains unchanged at £26.36m. Over the next 43 years, the total amount of MRP charges remains unchanged, as it is only the profiling of the charges that alters.

3.10 The annual MRP charge is calculated from the Capital Financing Requirement by applying a rate of 2% on an annuity basis, to which no change is proposed.

4.0 FINANCIAL IMPLICATIONS

4.1 The re-profiling of MRP will be released to the General Fund over the next 10 years as set out in the table in Appendix 1, creating a reduction in MRP charges of over £2m pa. Thereafter, MRP charges will gradually increase each year over the next 33 years.

4.2 Over the total 43 year period, the total charge for MRP remains unchanged, with only the profile of the annual charges affected.

5.0 LEGAL IMPLICATIONS

5.1 Under Regulation 27 of the 2003 Regulations, Local Authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that Local Authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is ‘prudent’. In calculating a prudent provision, Local Authorities are required to have regard to Ministry of Housing, Communities and Local Government (MHCLG) guidance, entitled ‘Capital Finance: Guidance on Minimum Revenue Provision (Fourth Edition) - as last updated on 2 February 2018.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 Following an assessment of external advice received from Link Asset Services Limited, the Council's view is that the MRP proposal included in this report represents a prudent assessment, in line with MHCLG guidance. The risk of challenge to this view is considered low.

8.0 ENGAGEMENT/CONSULTATION

8.1 Information contained in this report has been shared with the Council's auditors, Grant Thornton LLP.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The content and/or recommendations contained within this report are expected to have no impact on emissions of CO_2.

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APPENDICES

APPENDIX 1 – Impact on Annual MRP Charges

BACKGROUND PAPERS

SUBJECT HISTORY (last 3 years)

Council Meeting	Date

APPENDIX 1 – Impact on Annual MRP Charges

Year	Year ending 31st March	Opening Capital Financing Requirement	Annuity based MRP	Closing Capital Financing Requirement	Proposed Re-Profiling Adjustment	Additional MRP resulting from the higher Capital Financing Requirement (created by lower MRP charges)	Net MRP Adjustment
		£'m	£'m	£'m	£'m	£'m	£'m
1	2020	170.05	2.53	167.52	(2.64)	0.01	(2.63)
2	2021	167.52	2.58	164.93	(2.64)	0.05	(2.59)
3	2022	164.93	2.63	162.30	(2.64)	0.09	(2.55)
4	2023	162.30	2.69	159.61	(2.64)	0.13	(2.50)
5	2024	159.61	2.74	156.87	(2.64)	0.18	(2.45)
6	2025	156.87	2.80	154.08	(2.64)	0.23	(2.40)
7	2026	154.08	2.85	151.23	(2.64)	0.29	(2.35)
8	2027	151.23	2.91	148.32	(2.64)	0.34	(2.29)
9	2028	148.32	2.97	145.35	(2.64)	0.40	(2.23)
10	2029	145.35	3.03	142.32	(2.64)	0.46	(2.17)
11	2030	142.32	3.09	139.24	0.00	0.52	0.52
12	2031	139.24	3.15	136.09	0.00	0.53	0.53
13	2032	136.09	3.21	132.88	0.00	0.55	0.55
14	2033	132.88	3.28	129.60	0.00	0.56	0.56
15	2034	129.60	3.34	126.26	0.00	0.57	0.57
16	2035	126.26	3.41	122.85	0.00	0.58	0.58
17	2036	122.85	3.48	119.38	0.00	0.59	0.59
18	2037	119.38	3.55	115.83	0.00	0.60	0.60
19	2038	115.83	3.62	112.22	0.00	0.61	0.61
20	2039	112.22	3.69	108.53	0.00	0.63	0.63
21	2040	108.53	3.76	104.77	0.00	0.64	0.64
22	2041	104.77	3.84	100.93	0.00	0.65	0.65
23	2042	100.93	3.91	97.01	0.00	0.66	0.66
24	2043	97.01	3.99	93.02	0.00	0.68	0.68
25	2044	93.02	4.07	88.95	0.00	0.69	0.69
26	2045	88.95	4.15	84.79	0.00	0.71	0.71
27	2046	84.79	4.24	80.56	0.00	0.72	0.72
28	2047	80.56	4.32	76.23	0.00	0.73	0.73
29	2048	76.23	4.41	71.83	0.00	0.75	0.75
30	2049	71.83	4.50	67.33	0.00	0.76	0.76
31	2050	67.33	4.59	62.74	0.00	0.78	0.78
32	2051	62.74	4.68	58.07	0.00	0.79	0.79
33	2052	58.07	4.77	53.29	0.00	0.81	0.81
34	2053	53.29	4.87	48.43	0.00	0.83	0.83
35	2054	48.43	4.96	43.46	0.00	0.84	0.84
36	2055	43.46	5.06	38.40	0.00	0.86	0.86
37	2056	38.40	5.17	33.23	0.00	0.88	0.88
38	2057	33.23	5.27	27.96	0.00	0.89	0.89
39	2058	27.96	5.37	22.59	0.00	0.91	0.91
40	2059	22.59	5.48	17.11	0.00	0.93	0.93
41	2060	17.11	5.59	11.52	0.00	0.95	0.95
42	2061	11.52	5.70	5.82	0.00	0.97	0.97
43	2062	5.82	5.82	0.00	0.00	0.99	0.99
				Total	**(26.36)**	**26.36**	**(0.00)**