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**REPORT FOR: CABINET**

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<b>Date of Meeting:</b>	10 December 2015
<b>Subject:</b>	Minimum Revenue Provision Policy Statement - Revision
<b>Key Decision:</b>	Yes
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Portfolio Holder:</b>	Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	No, as the decision is reserved to Council
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1 – Minimum Revenue Provision (Before 01/04/08)

## **Section 1 – Summary and Recommendation**

### **Summary**

This report sets out proposals for the revision of the Minimum Revenue Provision Policy in respect of capital expenditure incurred before 1 April 2008 and requests that Cabinet recommends the revision to Council.

## **Recommendation:**

Cabinet is requested to recommend to Council that, in respect of capital expenditure incurred before 1 April 2008, the Minimum Revenue Provision Policy be revised to read:

*For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the Minimum Revenue Provision Policy will be the equal annual reduction of 2% of the outstanding debt at 1 April 2015 for the subsequent 50 years.*

## **Reason: (For recommendation)**

**Reason:** To make the Council's Minimum Revenue Provision Policy more prudent and to create further capacity in the General Fund.

## **Section 2 – Report**

### **Introduction**

1. The proposal made in this report will make a significant contribution towards the delivery of the Council identified priorities as follows:
  - Making a difference for the vulnerable
  - Making a difference for communities
  - Making a difference for local businesses
  - Making a difference for families

### **Options considered**

2. In the preparation of this proposal the only alternative option available is not to proceed which is not considered appropriate.

### **Background**

3. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year e.g. land, buildings, vehicles, machinery etc. The accounting approach is to spread the costs of acquisition over the period during which such assets are used to provide services. The mechanism for spreading these costs is through an annual Minimum Revenue Provision (MRP). The MRP is the means by which capital expenditure which is financed by borrowing or credit arrangements is funded by the revenue account over its useful life.
4. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require the Council to determine for the current financial year an amount of minimum revenue provision which it

considers to be prudent. This involves allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure provides benefit.

5. On 26 February 2015, within a report entitled “Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2015-16” the Council confirmed the existing Minimum Revenue Provision Policy as follows:

- *For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the 'Regulatory Method' (option 1) outlined in CLG guidance on MRP. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.*
- *For all capital expenditure financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance.*
- *In some cases where a scheme is financed by prudential borrowing it may be appropriate to vary the profile of the MRP charge to reflect the future income streams associated with the asset, whilst retaining the principle that the full amount of borrowing will be charged as MRP over the asset's estimated useful life.*
- *A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts.*
- *Estimated life periods and amortisation methodologies will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.*
- *Freehold land cannot properly have a life attributed to it, so for the purposes of Asset Life method it will be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate will be used for the land.*
- *As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.*
- *Repayments included in annual PFI or finance leases are applied as MRP.*
- *Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.*
- *Under Treasury management best practice the Council may decide to defer borrowing up to the capital financing requirement (CFR) and use*

*internal resources instead. Where internal borrowing has been used, the amount chargeable as MRP may be adjusted to reflect the deferral of actual borrowing.*

6. Under this Policy the total charge to the General Fund budget in 2015-16, excluding PFI and finance leases is expected to be approximately £12.8m of which a significant element (£5.2m) is in relation to debt incurred prior to 1 April 2008 calculated in accordance with the first "bullet" point in paragraph 5.

## **Proposal**

7. Officers regularly review all treasury management practices and, in relation to the debt incurred prior to 1 April 2008, have identified an opportunity to make the Council's provision more prudent. This will also make capacity in the General Fund in the current year of approximately £2.6m and with substantial but reducing capacity for the following 16 years.
8. The Council currently has outstanding debt on expenditure incurred prior to 1 April 2008 of £129m hence, based on current policy ie 4% per year on a reducing balance, the charge in 2015-16 is £5.2m. The outstanding debt gradually reduces over time but the methodology is such that it will never be fully provided for.
9. Whilst the current policy is one of the options set out in Government guidance, the guidance makes clear that it is not mandatory for local authorities to follow one of its suggested options. It is for the Council to determine its own methodology as long as it is prudent for local circumstances.
10. Whilst it has never been possible to allocate the Council's outstanding debt to specific assets it is likely that most of the pre-1 April 2008 debt has arisen from expenditure on land and buildings most of which, even today, are likely to have an outstanding life of at least 50 years.
11. Officers have reviewed the methodology and concluded that charging for the pre-1 April 2008 debt by the use of 2% straight line method, whereby the debt would be divided into 50 with an equal charge made in each year over the next 50 years, would be beneficial. It would have the dual benefits of ensuring that the whole debt was covered within a reasonable timescale and that capacity would be realised over the first 17 years. The exact profile of provision under the current and proposed methodologies is shown in Appendix 1
12. It is therefore recommended that in respect of capital expenditure incurred before 1 April 2008, Cabinet recommends to the Council that the Minimum Revenue Provision Policy be revised to read:

*For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the equal annual reduction of 2% of the outstanding debt at 1 April 2015 for the subsequent 50 years*

## **Staffing resources**

13. This proposal has no direct effect on staffing resources.

## **Governance and delegations**

14. This proposal has no effect on governance and delegations.

## **Performance Issues**

15. There are no performance issues arising from this report.

## **Environmental Implications**

16. There are no environmental implications arising from this report.

## **Risk Management Implications**

17. The identification, monitoring and control of risk are central to the achievement of treasury management objectives. Potential risks are included in the Directorate risk register and are identified, mitigated and monitored in accordance with treasury management practice notes.

## **Legal Implications**

18. Legal comments are included within the report.

## **Financial Implications**

19. Appendix 1 shows that using the proposed methodology with equal repayment instalments of £2.6m per year for 50 years the total debt will be fully covered by 2064-65 whilst under the existing methodology at that date £16.7m will remain outstanding. Capacity over the next 17 years will range from £2.6m in 2015-16 to £0.1m in 2031-32. After 2031-32 costs will gradually increase but using net present value calculations (with a discount rate of 3% as included in Treasury guidance) the maximum increase in 2064-65 will equate to £0.4m. A prudent approach would be to start setting aside the capacity after it reached below £1m (2024/25) to create a provision to support the position from 2032/33.

## **Equalities implications / Public Sector Equality Duty**

20. Officers have considered possible equalities implications and consider that there is no adverse equalities impact.

## **Council Priorities**

The Council's vision:

**Working Together to Make a Difference for Harrow**

21. This report recommends a policy change which will assist in the delivery of the Council's vision and corporate priorities as follows:

- Making a difference for the vulnerable
- Making a difference for communities
- Making a difference for local businesses
- Making a difference for families

### **Section 3 - Statutory Officer Clearance**

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 26 November 2015		
Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 30 November 2015		

<b>Ward Councillors notified:</b>	<b>NO, as it impacts on all wards</b>
<b>EqIA carried out:</b>	<b>NO</b>
<b>EqIA cleared by:</b>	Recommendation concerns the changes in the MRP policy with no direct equalities implications.

## **Section 4 - Contact Details and Background Papers**

**Contact:** Ian Talbot, Treasury and Pension Fund Manager, 0208 424 1450, [ian.talbot@harrow.gov.uk](mailto:ian.talbot@harrow.gov.uk)

**Background Papers:** None

**Call-In Waived by the  
Chairman of Overview  
and Scrutiny  
Committee**

**NOT APPLICABLE**

*[Call-in does not apply as the  
decision is reserved to Council]*