Committee name: Council

Committee date: 30/01/2024

Report title: Minimum Revenue Provision (MRP) Policy Change 2023/24

Portfolio:	Councillor Kendrick, Cabinet member for resources
Report from:	Interim chief finance officer (S151)
Wards:	All Wards

Purpose

This report sets out a proposal to change the council's approach to charging a Minimum Revenue Provision (MRP) in accordance with statutory guidance which is designed to ensure that resources are available to meet the repayment of borrowing.

Recommendation:

That following consideration of the report, Council adopts the Minimum Revenue Provision (MRP) Policy change 2023/2024 and agrees the following policy statement set out in Appendix A to this report.

Policy Framework

The Council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the Norwich City Council is in good shape to serve the city corporate priority.

Background

1. In accordance with the Local Government Act 2003, the Authority is required to set aside resources each year through a revenue charge known as the Minimum Revenue Provision (MRP). This ensures that borrowing undertaken to fund capital expenditure can be repaid and is therefore ‘affordable’.

2. The Authority is required 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 sets out four ready-made options for determining MRP which it considers to be prudent but does not rule out alternative approaches providing that they achieve the objective of providing resources for the repayment of borrowing when it is due.

3. Prior to the new capital financing system (2008) borrowing was largely supported by revenue resources provided by the government through the financial settlement (Supported borrowing). Since the change to the capital financing regulations no support is provided to councils by the government and councils must ensure that borrowing is ‘affordable’ and can be repaid. In part this is achieved by setting aside revenue resources from its budget so that borrowing can be repaid when it falls due (The MRP).

4. The overriding requirement of the Guidance is to make a prudent provision which ensures that debt is repaid over a period that broadly matches the asset life. In the light of recent council failures associated with high levels of unsustainable debt and a concern that prudent approaches were not always being followed the government has also been consulting on changes to the regulations in this area which would tighten the discretions that councils have.

5. 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. The proposed policy statement for 2023/24 is set out in full at Appendix A

6. The policy includes reference to amounts previously provided in relation to a Voluntary Revenue Provision (VRP) - this is any amount above the Minimum Revenue Provision. Previously the council has set aside a VRP in relation to loans it considered to be at risk of non-repayment; again a prudent approach. The council now considers that this risk has reduced and is therefore proposing to reverse the VRP made in 2023/24.

7. The government has recently consulted on changes to the 2003 MRP regulations with an intention to make it 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. The proposed changes are expected to be implemented in April 2024.

8. The Treasury Management committee considered an exempt report on the proposed policy change at its meeting on 20 November 2023, and agreed with the proposals.

9. On 17 January 2023, Cabinet resolved to recommend the change to the council's approach to charging a MRP in accordance with the statutory guidance which is designed to ensure that resources are available to meet the repayment of borrowing. Cabinet resolved to recommend to Council that it adopts the policy changes as set out in the detailed report.

Proposed changes to MRP Policy

10. A review of the Authority's MRP policy has been undertaken by the council's treasury management advisors; Link Group (Link). The objective of this was to review the council's current policy and identify opportunities to move to an appropriate and cost effective MRP strategy whilst ensuring that the provision remains prudent and compliant with statutory guidance. The review identified various options which could be implemented within statutory guidance and officers are proposing to adopt the policies which are deemed best suited to Norwich CC.

11. The Authority's current MRP policy for supported borrowing and historic debt prior to 2008 is calculated on an annuity method over 50 years. It is not proposed to amend this policy. However, it is worth noting this policy uses an adjustment (Adjustment A), which ensures the same amount of pre-2008 debt liability is written down as previously. This is a prudent approach as it ensures that taxpayers are not being charged for a higher level of debt liability.

12. The current method for calculating MRP for unsupported borrowing is the annuity method over the individual asset's useful life.

13. Link have carried out extensive research on current MRP policies in England and have observed that the annuity method of calculating MRP is used by over 60% of Authorities throughout the country. The annuity method is also one of the government's standard approaches to setting the MRP using either the asset life or weighted average asset life methodology.

14. Link have suggested that an alternative annuity method which calculates asset lives on a weighted average basis would have the benefit of a reduction in MRP charges in the near term. It is considered that this option is as prudent as the current policy since the asset lives currently being used will not be changed.

15. Officers are proposing that the Council implements this option – the MRP savings for the first 5 years, in relation to the unsupported (pre 2008) position, is shown below, and the full financial impact of the proposed change across the whole Capital Financing Requirement (underlying need to borrow) is provided in Appendix B.

Unsupported borrowing:

Year	Original charge £'000	Revised charge £'000	(Saving) / Cost £'000
2023/24	1,145	588	(557)
2024/25	1,176	617	(559)
2025/26	1,207	647	(560)
2026/27	1,240	678	(561)
2027/28	1,273	711	(562)
5y TOTAL			**(2,800)**

16. The main advantages of the change in policy are:

    a) The weighted average method of calculation for unsupported borrowing is a much simpler calculation than the current method, providing for more concise and user-friendly working papers.
    b) The MRP charges in the near term will be reduced.
    c) It is as prudent as the current policy since the asset lives currently being used will not be changed.
    d) The overall impact on a net present value basis is a £4.6m benefit.

17. Main disadvantages of the changes in policy:

    a) The proposed changes will lead to a higher Capital Financing Requirement than under the Authority's current MRP policy; this might be interpreted as an increase to the council's level of indebtedness.
    b) The repayment period is slightly extended (by 2 years)

18. It is important to note that this change in calculating the MRP does not affect the level of actual external debt which is determined by reference to the council's overall cash position. The Capital Financing Requirement (CFR) is a determination of the council's underlying need to borrow that increases where capital expenditure which is not funded by capital receipts, grants or revenue contributions must therefore be funded by borrowing. The CFR reduces by the annual amount of the CFR or where a decision to pay down the CFR is taken – for example by applying capital receipts or other non-borrowed sources of finance.

19. The current MRP policy for third party loans is not to provide MRP on loans where there is an agreed repayment plan. It is likely that this will not be permitted under regulations further drafts of which were provided on 22 December 2023 and are currently being evaluated. If such a change were made MRP would be payable on all external loans to third parties such as Norwich Preservation Trust and the council's wholly owned companies. Any required changes as a result of changed regulations will be included in the council's final budget papers.

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

Implications

Financial and Resources

21. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan and Budget. This report is to support a decision which will change the way that resources are used to enable the repayment of borrowing.

22. The impact of the changes will reduce the level of resources provided in the early years of the policy and increase those in later years. The Chief Finance Officer is clear that the proposed approach remains prudent. The Treasury Management committee considered and approved the proposed changes at their November 2023 meeting. Cabinet approved the recommendations at its meeting on 17 January 2023.

23. Overall, at today's prices the benefit is £4.6m (Appendix B).

Legal

24. The Council must have regard to the provisions of the Treasury Management code of practice when undertaking and reporting on its treasury activities. The requirement for Council to approve its Treasury Management Strategy and to receive reports, on its treasury management performance, are requirements of the Code of Practice.

Statutory Considerations

Consideration	**Details of any implications and proposed measures to address:**
Equality and Diversity	None
Health, Social and Economic Impact	None
Crime and Disorder	None
Children and Adults Safeguarding	None
Environmental Impact	None

Risk Management

25. Managing risk is a major part of treasury management activity. Statutory limits, indicators and policies are in place to reduce the level of risk including that levels of borrowing must be affordable.

Risk	Consequence	Controls Required
Future interest rate changes can offer both opportunity and risk.	Future loan interest rate changes need to be assessed against the cost of borrowing and the council's ability to fund expenditure from its own cashflows (internal borrowing).	To mitigate the risk, we will work closely with our treasury advisors to review interest rate forecasts to assess when we should borrow.

Other Options Considered

26. The approach to making a MRP could remain as it currently is, or the council could adopt other approaches either suggested by the government or other prudent approaches.

27. As part of their review Link discussed other approaches and techniques which were not considered to be as appropriate or did not deliver the overall savings as those recommended.

Reasons for the decision/recommendation

28. To ensure the council and members are kept informed of treasury activity in line with the Financial Regulations.

29. The report recommends a change to the council's approach to providing a MRP which has a positive impact on the council's overall finances particularly in the short term.

Background papers: None

Appendix A – Policy Statement
Appendix B - Impact of proposed changes

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Appendix A – Minimum Revenue Provision (MRP) Policy Statement 2023-24

(1) The Authority’s MRP policy has been amended for 2023/24 following a comprehensive review of MRP charges and methodology. This updated policy reflects the new MRP calculation methods proposed to be implemented;

(2) For supported capital expenditure incurred before 1st April 2008, the Authority will apply the Asset Life Method using an annuity calculation and will take account of the regulatory calculated Adjustment A;

(3) Unsupported borrowing will be subject to MRP under option 3 of the guidance (Asset Life Method). MRP will be based on the estimated life of the assets in accordance with the statutory guidance using the annuity method, calculated on a weighted average basis;

(4) 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 lives as recommended by the statutory guidance;

(5) The interest rate applied to the annuity calculations will reflect the market conditions at the time, and will for the current financial year be based on PWLB annuity rates;

(6) Where applicable, repayments included in annual PFI or finance leases are applied as MRP;

(7) MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory minimum revenue provision (MRP), i.e. voluntary revenue provision 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 amount of VRP overpayments up to 31st March 2023 was £1.300m;

(8) MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for asset under construction where the MRP will be deferred until the year after the asset becomes operational;

(9) For capital loans to third parties the MRP policy is not to provide MRP on loans where there is an agreed repayment plan.

Appendix B – Impact of proposed changes

MRP Policy change full calculations – Unsupported borrowing

Financial year	Current repayment	Revised repayments	(Reduction) / cost	NPV
	£'000	**£'000**	**£'000**	**£'000**
2023/24	1,145	588	(557)	(538)
2024/25	1,176	617	(559)	(522)
2025/26	1,207	647	(560)	(506)
2026/27	1,240	678	(561)	(489)
2027/28	1,273	711	(562)	(473)
2028/29	1,307	746	(561)	(457)
2029/30	1,342	782	(560)	(441)
2030/31	1,379	820	(559)	(424)
2031/32	1,370	860	(510)	(374)
2032/33	1,344	902	(442)	(313)
2033/34	1,381	945	(436)	(298)
2034/35	1,419	991	(428)	(283)
2035/36	1,459	1,039	(419)	(268)
2036/37	1,499	1,090	(409)	(253)
2037/38	1,541	1,143	(398)	(237)
2038/39	1,584	1,199	(385)	(222)
2039/40	1,628	1,257	(371)	(207)
2040/41	1,673	1,318	(355)	(191)
2041/42	1,720	1,382	(338)	(176)
2042/43	1,768	1,449	(319)	(160)
2043/44	1,789	1,519	(269)	(131)
2044/45	1,839	1,593	(245)	(115)
2045/46	1,890	1,671	(220)	(100)
2046/47	1,944	1,752	(192)	(84)
2047/48	1,999	1,837	(161)	(68)
2048/49	2,055	1,926	(129)	(53)
2049/50	2,088	2,020	(68)	(27)
2050/51	2,147	2,118	(29)	(11)
2051/52	2,207	2,221	14	5
2052/53	2,270	2,329	59	21
2053/54	2,334	2,442	109	37
2054/55	2,400	2,561	161	54
2055/56	2,468	2,685	218	70
2056/57	2,538	2,816	278	86
2057/58	2,610	2,953	343	103
2058/59	2,400	3,096	697	202
2059/60	2,464	3,247	783	219
2060/61	2,530	3,405	875	237
2061/62	2,597	3,570	973	254
2062/63	2,667	3,743	1,077	272
2063/64	2,657	3,925	1,268	309
2064/65	2,663	4,116	1,453	343
2065/66	2,675	4,316	1,641	374
2066/67	2,493	4,526	2,033	447
2067/68	2,491	4,746	2,255	479
2068/69	2,072	0	(2,072)	(426)
2069/70	1,561	0	(1,561)	(310)
Total	**90,298**	**90,298**	**(0)**	**(4,643)**