worcestershire county council

# AGENDA ITEM 5

# CABINET
# 17 DECEMBER 2015

# RESOURCES REPORT

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**Relevant Cabinet Member**
Mr A I Hardman

**Relevant Officer**
Chief Financial Officer

**Recommendation**

1. **The Cabinet Member with Responsibility for Finance recommends that:**

   **(a) Council be recommended to approve the Minimum Revenue Provision (MRP) policy with regard to pre-2008 long-term borrowing detailed at paragraph 18; and**

   **(b) the work to consider the MRP for post-2008 long-term borrowing is endorsed.**

**Introduction and Summary**

2. The County Council is required, under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, to make a Minimum Revenue Provision (MRP) charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements. This is the annual amount charged to the budget each year to repay the principal element of long-term borrowing and is based on a system of self-regulation informed by our professional judgement of 'prudent provision'.

3. The Guidance states that "the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits".

4. The Council uses long-term borrowing as part of an overall financing strategy to fund long-term capital investment in projects such as road construction and school improvements and it is sensible to ensure assets are paid for over their useful life.

5. This Cabinet report recommends Council approval of a change to the existing MRP policy that will match debt financing to the useful life of the assets being financed and achieve cost reductions over the medium term.

**Guidance and Regulations**

6. The current regulations were implemented in 2007 and allow for different treatment of long-term borrowing incurred pre and post 2008. The regulations require regular review of the policy and we have taken this opportunity to:

(a) better align debt repayments to the asset lives; and
(b) ensure the policy is prudent without being overly prudent.

**The Existing Policy**

7. Under the existing policy the Council's forecast MRP charge for 2015/16 is £16.1 million, with £11.0 million relating to pre-2008 long-term borrowing and £5.1 million to post-2008.

8. The policy has been in place since 2007/08 and is approved each year as part of the budget setting process Statement of Prudential Indicators.

9. The financial climate over recent years has prompted a number of local authorities to review their own MRP policies to ensure the best method for repaying long-term borrowing is being applied, and to inform our own review the Council has taken advice from PriceWaterhouseCoopers LLP, and obtained valuable feedback from our external auditors Grant Thornton LLP that they are content with the overall principles of our approach.

**Pre-2008 MRP**

10. The MRP charge for pre-2008 long-term borrowing currently results in a payment that is much higher than what an average payment based on actual asset lives would suggest. We are therefore currently paying off debt faster than which we receive the benefits.

11. The review proposes that it would be appropriate, affordable and reasonable to match the period of debt repayments to the average life of the assets being financed. Following in-depth work across the Council's fixed assets the average life has been professionally assessed as being 43 years.

12. It is important to understand that the total debt repayment under this proposal will still remain the same.

13. The impact of the change is:

(a) a reduction of the MRP charge for 2015/16 of £4.6 million;
(b) a reduction of the MRP charge for the period of the 4-year MTFP of £14.2 million;
(c) lower levels of MRP charge for the next 14 years;
(d) an increase in the MRP charge for the accounting periods between year 15 and 43 above the level previously forecast before dropping under the current method thereafter;
(e) no MRP charge after year 43 (where previously we would have been paying off debt indefinitely).

14. In order to protect revenue budgets from volatility and to deliver a consistent saving of £2 million per year between years 1 to 14, it is proposed that the Council makes a voluntary additional MRP payment in years 1 to 6 of £9.2 million to smooth the net impact of the change.

15. This proposal reduces the call on the general fund over the life of the MTFP and delivers a consistent saving to support the County Council's FutureFit intentions without incurring any significant real term future costs for future generations, taking account of the time value of money.

### Post-2008 MRP

16. The post-2008 MRP will require further additional work to understand the age and funding profile of the assets and the capital investment schemes and business cases that underpin them.

17. It is therefore proposed that the post-2008 MRP policy will be kept under continual review with any proposals brought to future Cabinet meetings. This will ensure changing organisational requirements are best reflected in debt financing.

### MRP Policy

18. It is recommended that Full Council approves the MRP Policy for long-term borrowing pre 1 April 2008 to be based on matching the debt repayments to the average asset lives being 43 years.

## Contact Points

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## Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.