

Report of the Chief Finance Officer to the PCC to the Police and Crime Commissioner for Cleveland

27th February 2017

Status: For Decision

Minimum Revenue Provision 2017/17

1. Purpose

- 1.1 Minimum Revenue Provision (MRP) is the annual revenue provision that authorities have to make in respect of their debts and credit liabilities. The requirement to make MRP has existed since 1990.
- 1.2 A report is necessary to seek approval from the PCC as to the annual MRP strategy.
- 1.3 The MRP strategy complements the wider financial picture which aims to provide transparency on the cost to the PCC of taking on new borrowing, therefore linking into the PCC's prudential indicators and the overall management of the PCC's assets.

2. Recommendations

The PCC is asked to approve:

- 2.1 The MRP Strategy for 2017/18, which involves no change from the 2016/17 strategy. Specifically that being:
 - Option 1 ("Regulatory Method") be used to calculate the MRP on existing borrowing (before the 1st April 2008) and any future supported borrowing (after 1st April 2008).
 - Option 4 ("Depreciation Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1st April 2008).

3 Reasons

- 3.1 Minimum Revenue Provision is the annual revenue provision that authorities, which are not debt free, have to make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the PCC of taking on new borrowing. The requirement to make MRP has existed since 1990.
- 3.2 Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) Regulations 2007, the current arrangements for calculating the MRP as specified in the 2003 Regulations have been superseded. The 2007 Regulations now place a general duty on local authorities to make a Minimum Revenue Provision which is considered to be prudent, with the responsibility being placed upon the PCC to approve an Annual MRP Strategy each year.
- 3.3 The 2007 Regulations require that an Annual MRP Strategy be adopted by the PCC prior to the start of the coming financial year. The PCC can change the method of calculating MRP on an annual basis (subject to the constraints set out below). Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way (that is, the PCC can not change the method of calculating MRP on individual assets).
- 3.4 Options Available
Four options are outlined within the 2007 Regulations for authority's to follow as to the calculation of MRP, however there are certain factors which predetermine the option the PCC must adhere to, depending on the timing of the borrowing (that is before or after the 1st April 2008) and whether the borrowing is supported or unsupported:
- 3.4.1 Option 1 ("Regulatory Method") and Option 2 ("Capital Financing Requirement (CFR) Method") can only be used to calculate the MRP in the following circumstances:
- Existing borrowing against capital expenditure that was incurred before the 1st April 2008 (regardless of whether the borrowing was supported or unsupported).
 - Supported borrowing incurred after the 1st April 2008.
- 3.4.2 Option 3 ("Asset Life Method") and Option 4 ("Depreciation Method") can only be used to calculate the MRP for new schemes that require the PCC to take on unsupported borrowing after the 1st April 2008.

Appendix 1 provides a glossary of some of the terms used in the paper and calculations. Appendix 2 shows how the MRP figure is calculated under each of the options discussed above.

- 3.4.3 To minimise the impact on revenue the PCC is asked to approve:
- Option 1("Regulatory Method") be used to calculate the MRP on existing borrowing (before the 1st April 2008) and any future supported borrowing (after 1st April 2008)
 - Option 4 ("Depreciation Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1st April 2008)

4 Implications

4.1 Finance

The financial implications of this Strategy are factored into the Long Term Financial Plan.

4.2 Diversity & Equal Opportunities

There are no diversity or equal opportunity implications arising from this report.

4.3 Sustainability

The MRP Strategy aims to provide transparency as to the cost to the PCC of taking on new borrowing and links with the Prudential Indicators to determine the sustainability and affordability of all unsupported borrowing undertaken.

4.4 Risk

Insufficient MRP provided for in the PCC's budget. Any new borrowing that the PCC takes out will incur a MRP charge in the revenue budget which will specifically relate to the asset acquired or enhanced. This 'charge' will need to be built into the revenue budget to ensure the PCC has sufficient resources available to meet the liability. The MRP charge increased significantly over the 5 years to 2013/14 and the PCC inherited a position of having to set aside nearly £1.4m per annum (which was about 1% of the total funding available to the PCC in 2013/14) to meet these charges. Given the changes that the PCC has implemented during the previous years the MRP charge has reduced by £600k per annum to the amount required to be set aside in 2017/18.

5 Conclusion

This report seeks approval from the PCC on the treatment and calculation of MRP, and the Strategy that is used by the PCC and therefore ensures that the PCC is in line with the Local Authority Regulations.

Michael Porter
Chief Finance Officer for the PCC

Glossary of Terms

Adjustment A – Technical accounting adjustment set out in regulations to ensure consistency with previous Capital Regulations

Capital Financing Requirement (CFR) – Amount needed to finance the Capital Programme from previous years (borrowing) and current year (capital receipts, grants etc.)

Prudential Indicators – In order to assess the PCC's ability to afford borrowing when making capital financing decisions and to ensure that prudent levels are set. These indicators show the projected and actual position together with limits which can only be exceeded with approval and in exceptional circumstances

Supported Borrowing – Borrowing for which the Government will provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects

Unsupported (Prudential) Borrowing – Borrowing under the Prudential Code for which the Government will not provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects.

Supported Borrowing (after 1st April 2008) and any Previous Borrowings

Option 1 ("Regulatory Method") – This is the method currently used by the Authority, as set out in the 2003 Regulations. Option 1 is calculated as 4% of the total Capital Financing Requirement for all borrowing, less Adjustment A:

$$4\% (CFR - AA)$$

Where:

- CFR = Capital Financing Requirement
- AA = Adjustment A

Option 2 ("Capital Financing Requirement (CFR) Method") – this uses the same formula as Option 1 but does not take account of Adjustment A.

$$4\% (CFR)$$

Where:

- CFR = Capital Financing Requirement

Once calculated Adjustment A remains a fixed variable within the calculation; in the case of Cleveland Police Authority Adjustment A is £1,997,000 meaning that the MRP calculated under Option 1 will always be £79,880 (4% of £1,997,000) less compared to Option 2.

Unsupported Borrowing (after 1st April 2008)

Option 3 ("Asset Life Method") – The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset

Option 4 ("Depreciation Method") - The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B - D}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset
- D = Residual Value of the Asset

The only difference between the two methods of calculating the MRP is that there is recognition in option 4 that the asset will still be worth 'something' after its useful life has expired.