Revised Annual Minimum Revenue Provision Statement 2024/25

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed 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.

The Guidance provides suggested methods for the calculation of MRP that the DLUHC consider to be prudent, however the Guidance and legislation do not define what is prudent. It is for each Council to determine a prudent repayment based on its own individual circumstances, considering the medium and long-term financial plans, current budgetary pressures, future capital expenditure plans and funding needs.

The current MRP policy has not been changed since 2017/18, when the basis for charging for capital expenditure incurred before 1st April 2008 was amended from a 4% reducing balance charge (the regulatory method) to a straight-line charge over 50 years. The changes to the financial landscape which the Council is now faced, including recent increases in interest rates and inflationary impacts across all Council service areas mean it is sensible to review the Policy now.

Any change to the Council's MRP Policy needs to consider:

- Its appropriateness and compliance with the MRP guidance.
- Affordability, prudence and sustainability with regard to current revenue budgets of the Authority, balanced against deferring costs of future Council Taxpayers.
- The Authority's future capital programme in terms of complexity, variability and deliverability.
- Capital Financing Requirement (CFR) forecasts and the level of borrowing proposed by the Authority in future years.
- S151 officer consideration of what constitutes a prudent provision

Current Minimum Revenue Provision Policy

For non-PFI or Finance lease assets the Council makes MRP based on the expected asset life on a straight-line basis. For a small number of assets the annuity method is used using a rate of 2.88%. This rate is based on the PWLB certainty rate for the 40-year life of the assets at the time of acquisition.

For PFI and finance lease assets MRP is made in line with principal write downs of the lease liability, which broadly on an annuity basis, over the length of the PFI/Lease contract.

There is a capitalised loan to the Manchester Airports Group that forms part of the CFR. The CFR for this loan will be written down in full in a single year in 2058/59 when the loan is expected to be repaid. The Capital receipt from the loan principal repayment will be used to reduce the CFR instead of making MRP.

As a result of the national HRA refinancing in 2012 the Council has a negative HRA CFR (excluding the Housing PFI Contracts) of -£9.050m. HRA MRP, other than in relation to PFI Assets is made.

Proposed Changes to existing Policy

It is proposed to use the annuity method as opposed to the straight-line method for MRP being made on the asset life basis and the pre-2008 supported borrowing CFR. The interest rate to be used when calculating the annuity will be the PWLB certainty rate for annuity loans for the remaining life of assets (42 years for the pre 2008- supported borrowing CFR) at the date of the policy change (1st April 2024) for existing borrowing and average certainty rate for annuity loans for the relevant lives of assets in the year of acquisition for subsequent capital expenditure.

It is proposed to make MRP over the asset life rather than contract length for PFI Assets where the ownership of the assets pass to the council at the end of the contract or the assets continue to provide a benefit to the council over their life.

It is proposed to remove Adjustment A from the calculation of the MRP on pre-2008 supported borrowing.

It is proposed to reduce the HRA overprovision of MRP to nil.

Rationale for Changes

<u>Annuity Method</u>

The annuity method is an acceptable method for making MRP and is explicitly mentioned in the statutory guidance on MRP. The annuity method spreads the total capital financing costs (MRP plus interest) evenly over the asset life, similar to a repayment mortgage. When MRP is made it increases the Council's cash balances, therefore, reducing overall debt costs or increasing income from investment balances. The straight-line approach keeps MRP itself even, but as interest costs reduce over time, it front loads the total financing costs.

As the annuity method is an approach where overall costs to council taxpayers over the life of an asset is even is more prudent as council taxpayers are getting an even benefit from the assets. However, it should be noted that overall costs are slightly higher when using the annuity method as the principal is repaid more slowly resulting in higher overall interest costs. Conversely, when factoring in the time value of money the annuity method becomes a more suitable option.

<u>PFI Useful Asset Lives</u>

The council consider that it is prudent to provide for MRP over the asset life rather than the contract period. This is provided that the, where the asset life is longer than the contract length, the Council are likely to gain ownership of the asset or the asset is likely to continue to provide a service related benefit to council taxpayers after the contract is over. This is because making MRP over the life of the asset fairly charges council tax-payers over the period that benefits are received from the asset.

Removal of Adjustment A

Adjustment A is based on historical discrepancies between the pre-and post-2008 methodologies for calculating MRP. It is referred to in the guidance under the "regulatory method" for calculating MRP. The regulatory method was to make MRP on a 4% reducing balance method. Adjustment a is applied to the proportion of the CFR that relates to pre-2008 supported borrowing.

When the Council amended its MRP policy to provide for supporting borrowing on a straight-line basis from the regulatory method it retained an Adjustment A of £19.602m. Although the statutory guidance does not prohibit the use of Adjustment A where the regulatory method is not used, the only reference to this adjustment is contained within the regulatory method section of the statutory guidance.

In order demonstrate prudence, ensure compliance with the statutory guidance and to be able to demonstrate that the Council is providing for the CFR in full over time with MRP.

Correction of the overprovision of HRA MRP

The overprovision of MRP in the HRA CFR of -£9.050m will be made in line with the general approach to making HRA MRP, which will be an annuity asset life method over the average asset life of other assets in the HRA which is 50 years. This will ensure that the HRA CFRis written down to zero over time.

Revised MRP Policy Statement

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance

- For capital expenditure incurred before 1st April 2008 MRP will be determined on an annuity basis using the PWLB certainty rate at the date of the policy change (1st April 2024) assuming a remaining life of 42 years.
- For capital expenditure incurred after 31st March 2008 up to 31st March 2023, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis using the PWLB certainty rate for the remaining asset life at the date of the policy change, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For PFI assets where the asset passes to the Council at the end of the contract or the Council continues to receive service benefit from the assets beyond the life of the contract

MRP will be determined over the remaining life of the assets on an annuity basis using the PWLB certainty rate for the remaining life at the time of the policy change.

- For assets acquired by leases or the Private Finance Initiative (where the asset does not pass to the Council at the end of the contract or the Council does not receive service benefits beyond the life of the contract) , MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- For capital expenditure loans to third parties, the Authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

- No MRP will be charged in respect of non- PFI assets held within the Housing Revenue Account but depreciation on those assets will be charged instead in line with regulations.

- MRP on transferred debt is provided for on an annuity basis in line with schedules sent to the Council from the Lead authority administering the debt.

Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

Based on the Authority's capital financing requirement (CFR) at 31st March 2023, the charges for MRP under the revised and previous MRP policies is shown below:

	31/03/2024 CFR (£000)	Existing 24/25 MRP (£000)	Proposed 24/25 MRP (£000)	Difference (£000)
Pre -2008 Supported Borrowing	116,337	2,742	805	1,937
Asset Life MRP	158,530	7,701	5,876	1,825
Loans	9,677	0	0	0
PFI Schemes & Finance leases	193,857	11,654	1,897	9,757
Transferred Debt	27	5	5	0
Adjustment A	19,602	0	137	-137
HRA CFR	-9,050	0	-41	41
Total	**488,980**	**22,102**	**8,680**	**13,422**

Overall MRP Payment Profile

The profile of total MRP payments expected over the next 50 years under both policies is shown in the table below:

	1-10 years (£000)	11-20 years (£000)	21-30 years (£000)	31-40 years (£000)	41-50 years (£000)	Total (£000)
Current Policy	243,626	127,553	47,851	42,663	7,057	468,751
Revised Policy	97,306	112,351	102,981	102,527	64,138	479,303
Saving (Cost)	**146,320**	**15,202**	**-55,130**	**-59,863**	**-57,081**	**-10,553**

Overpayments: In earlier years, the Authority has made voluntary overpayments of MRP that are available to reduce the revenue charges in later years. It is planned to utilise the brought forward amount from 2023/24 in 2024/25 as part of the review of MRP policy.

MRP Overpayments	**£m**
Actual balance 31.03.2023	4.8
Approved draw down 2023/24	(3.8)
Expected balance 31.03.2024	1
Planned draw down 2024/25	(1)
Forecast balance 31.03.2025	0