SURREY
COUNTY COUNCIL

Audit & Governance Committee
20 February 2017

Minimum Revenue Provision Calculation

Purpose of the report:

This report informs the Committee of a change in the way the minimum revenue provision is calculated for the Council.

Recommendations:

It is recommended that the Audit & Governance Committee note the change to the calculation in advance of receiving the Council's Statement of Accounts for 2016/17.

Background:

1. The Council has an obligation[1] to make a 'prudent provision' for the repayment of its external debt. This is known as the Minimum Revenue Provision (MRP). This is the method by which local authorities charge their revenue accounts over time with the cost of their capital expenditure which is funded by borrowing.

2. MRP is calculated with reference to the Capital Financing Requirement (CFR), which is the element of previous years' capital expenditure which was not funded by existing council resources, such as capital government grants, capital receipts, reserves or revenue.

3. The increase in the CFR is broken down by asset and spread over the asset life, to derive the annual MRP charge to revenue.

4. Surrey County Council regularly carries out reviews of the MRP policy to ensure that the provision continues to be prudent but does not put unnecessary pressure on the Council's revenue budget. At times of increasing pressure on local authority finances, many Councils are looking at ways to reduce the amount charged to revenue for capital financing costs.

5. The review that has taken place in 2016/17, has been done in consultation with our treasury advisers and once proposals had been prepared these have been discussed with Grant Thornton, the external auditors.

[1] Under t*he Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended)*

MRP Calculation:

6. The Department for Communities and Local Government (CLG) issues guidance on the calculation of MRP, including a number of methods which it considers to be prudent. The guidance is clear that authorities are free to devise other methods they consider prudent.

7. Two changes to the historic methodology have been implemented:

   - to write down the pre-2008 CFR over a 50 year period

   - To use an annuity method of writing down the post-2008 expenditure over the life of the assets funded by borrowing.

8. The revised methodology will ensure that:

   - The pre-2008 CFR is financed in full over a shorter period. The revised approach will result in the pre-2008 CFR being fully financed by 31 March 2066 whilst the historic methodology leaves £49.98m outstanding at the same date.

   - The historic methodology linked the write down of pre-2008 expenditure to the level of borrowing supported by Government in the Revenue Support Grant calculation. Since 2008 local government funding has changed and grant funding has been steadily reduced, it is no longer considered appropriate to use this as a basis for the calculation.

   - Both the annuity and a straight line method of writing down post 2008 expenditure is allowable under the DCLG guidance.

9. The changes in the calculation are being implemented from the current financial year and remain in line with the MRP policy approved by Council in February 2016.

Conclusions:

10. Under these proposals, the total amount of MRP paid remains the same over the total life of the assets. However, they result is a reduction to the amount charged to revenue in the short to medium term.

11. As outlined in the above sections the proposed MRP policy remains in the Council's opinion a prudent one, in line with CLG guidance. Given the current financial challenges, the debt maturity profile of the Council and the limitations of the historical methodologies, it is felt appropriate to adopt these new proposals for the calculation of the Council's MRP for the current financial year and on an ongoing basis.

Financial and value for money implications

12. The revenue savings resulting from these changes have been incorporated into the current budget planning and have been incorporated into the 2017-20 MTFP.

13. There are no direct value for money implications of this report.

Equalities and Diversity Implications

14. There are no direct equalities implications of this report.

Risk Management Implications

15. There are no direct risk management implications of this report.

Next steps:

16. The revised calculation will be used for the MRP charge for 2016/17. This will form part of the Statement of Accounts for 2016/17 which will be brought to this Committee for approval in July 2017. The MRP policy for 2017/18 taken to full Council in February will also reflect these changes.

Report contact: Nikki O'Connor, Finance Manager (Assets & Accounting)

Contact Details: Nicola.oconnor@surreycc.gov.uk 020 8541 9263
Mobile: 07896 813764, Room G40 County Hall

This page is intentionally left blank