EXECUTIVE BOARD DECISION

REPORT OF:	Executive Member for Finance and Governance
LEAD OFFICER:	Director of Finance
DATE:	8th September 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

KEY DECISION: Y

TITLE OF REPORT: Review of the Policy for the Minimum Revenue Provision and Prudential and Treasury Management Indicators

1. PURPOSE

1.1 This report seeks approval for a revised policy for the Council's Minimum Revenue Provision and amended Prudential and Treasury Management Indicators for 2022/23.

2. RECOMMENDATIONS

2.1 The Executive Board is requested to recommend to Council Forum:

a) the policy on the Minimum Revenue Provision as set out at ***Appendix A***;

b) the amended Prudential Indicators for 2022/23 as set out at ***Appendix B***.

2.2 The Executive Board is also requested to approve the amended Treasury Management Indicators for 2022/23 as set out at ***Appendix C***.

3. BACKGROUND

3.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Act'), Local Authorities are required each year to set aside a provision for debt repayment. This is known as the Minimum Revenue Provision (MRP).

3.2 Before the start of each financial year, a Local Authority should prepare a statement of its policy on making MRP in respect of that financial year and submit it to Council for approval. The Policy Statement for 2022/23 was considered and approved by Finance Council on 28th February 2022. Councils can, if they consider it necessary, revise the Policy in year.

3.3 This report seeks approval to propose an amendment to the Policy Statement to Council Forum following the audit of the Council's accounts for 2020/21. This amendment will apply retrospectively to the MRP for 2021/22 and to the calculation from the current financial year onwards.

3.4 The *Prudential Code for Capital Finance in Local Authorities* and the *Treasury Management in the Public Services Code of Practice* provide frameworks for guidance for Local Authorities with their capital and treasury management strategies and decisions.

3.5 Before the start of each financial year, a Local Authority should approve Capital and Treasury Management Strategies for the upcoming year. As part of the Capital Strategy the Council also approves Prudential Indicators, measurements for how the Council ensures that its capital investment plans are affordable, prudent and sustainable. As part of the Treasury Management Strategy the Council also approves Treasury Management Indicators, to measure and manage its exposure to treasury management risks.

3.6 The Capital Strategy including Prudential Indicators for 2022/23 was considered and approved by Finance Council on 28th February 2022. The Treasury Management Strategy including Treasury Management Indicators was considered and approved by Executive Board on 10th March 2022.

3.7 This report seeks approval of the revised Treasury Management Indicators for 2022/23 and also seeks approval to proposed amendments to the Prudential Indicators 2022/23 to Council Forum.

4. KEY ISSUES

Minimum Revenue Provision (MRP)

4.1 Following the audit of the Council's Statement of Accounts 2020/21, the Council's External Auditors has made the following recommendation in relation to the Council's policy for MRP:-

> *'The Council should satisfy itself that its MRP policy results in a prudent MRP charge, in particular that the calculation of MRP appropriately reflects the nature of and period of expected benefits of capital expenditure and appropriate annuity rates are applied'.*

4.2 This recommendation has arisen from a review of the Council's policy for MRP which was approved by the Council in March 2021 and specifically that part of the MRP relating to capital expenditure financed from debt arising up to 2007/08, Government-supported borrowing arising from 2007/08 and historic debt entered into prior to the Council gaining Unitary Authority status (otherwise known and hereafter referred to as Supported Borrowing).

4.3 Regulation 28 of the 2003 Act requires the Council to calculate in each financial year an amount of MRP that it considers to be prudent. The meaning of prudent provision is set out in the Regulations and includes various options. However, the Regulations do not rule out or otherwise preclude the Council from using an alternative method should it decide it is more appropriate.

4.4 In December 2015, Policy Council agreed a revised MRP Policy. For all Supported Borrowing excluding historic debt entered into prior to the Council gaining Unitary Authority status, it was agreed to spread the cost evenly over 50 years (or 2% per annum). In January 2017, Council Forum agreed a further revision to the Policy to apply the same asset life (50 years) to historic debt.

4.5 A subsequent amendment to the MRP Policy was agreed by Finance Council in March 2021. Rather than spread the cost of MRP evenly over a 50 year period (which in cash terms led to equal instalments of MRP but in real terms, taking account of the time value of money, resulted in annually reducing instalments of MRP) it was agreed to use an annuity method to calculate the cost of MRP. This change was implemented to provide in real terms for equal instalments of MRP annually. In cash terms, however, it results in increasing amounts of MRP charge over the repayment period.

4.6 In response to the recommendation from External Audit, there are two aspects to the calculation that require review. These are:-

a) the period over which MRP is charged, which should reflect the expected benefits of the capital expenditure to which it relates; and

b) that an appropriate annuity rate should be applied.

4.7 In relation to the nature and period over which MRP is charged to reflect the expected benefits of capital expenditure. The absence of information supporting capital expenditure prior to 2008 inhibits a detailed assessment of the expenditure and, therefore the related asset life. However, a review of the Council's Asset Register indicates that on average, the assets recorded have a life of on average of 38 years. In view of this, and by way of proxy, the Council can be satisfied that using a 38 year life for expenditure funded by Supported Borrowing is reasonable.

4.8 In relation to annuity rates, in agreeing the policy on MRP in March 2021, the Council opted to use the 2015 PWLB Annuity New Loan Rate (3.75%). The use of 2015 rate was considered to be consistent with the timing of the change in the policy that occurred in 2015. External Audit have, however, queried the use of the 2015 rate and on reflection, whilst seeking to be consistent with the change in policy in 2015, it is more appropriate to apply the rate applicable at the time of the actual change in Policy (now July 2022). At that time, the relevant rate was 3.49% and it is considered reasonable to apply this in the proposed calculation of MRP.

4.9 This change in annuity rate will apply from the financial year 2021/22 onwards. The financial impact of this change has been modelled and is shown in detail at ***Appendix A-Annex 1*** to this report. Fundamentally, there is no change in the overall amount of debt repaid but the profile of repayment in cash terms will change so that there are higher repayments in earlier years than currently assumed (and debt will be repaid earlier than previously determined). The impact of this will have to be managed within current budgets and will be used to update the next iteration of the Council's Medium Term Financial Plan.

Prudential and Treasury Management Indicators

4.10 The implementation of the new IFRS 16 Leases accounting standard was due to come into for force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Authority intends to adopt the new standard on 1st April 2024.

4.11 The Prudential and Treasury Management indicators for 2022/23 were initially set taking into account the estimated impact of the new accounting standard. It is therefore considered necessary to update the indicators, given the decision to delay the adoption of the new accounting standard until 1st April 2024.

4.12 The revised Prudential Indicators are detailed in ***Appendix B***. The revised Treasury Management Indicators are detailed in ***Appendix C***.

5. POLICY IMPLICATIONS

5.1 This report seeks approval to a change in the Policy for the calculation of the Minimum Revenue Provision.

5.2 This report also seeks approval for revisions to the Prudential and Treasury Management Indicators.

6. FINANCIAL IMPLICATIONS

6.1 The financial implications of the proposed Policy change are as set out in the report.

7. LEGAL IMPLICATIONS

7.1 There are no legal implications arising directly from the contents of this report.

8. RESOURCE IMPLICATIONS

8.1 There are no other resources implications arising from the contents of this report.

9. EQUALITY AND HEALTH IMPLICATIONS

9.1 There are no equality and health implications arising from the contents of this report.

10. CONSULTATIONS

10.1 None arising from the contents of this report.

11. STATEMENT OF COMPLIANCE

11.1 The recommendation in this report is made further to advice from the Monitoring Officer.

Appendices

Appendix A – Proposed Policy for the Calculation of the MRP
Appendix B – Proposed Revised Prudential Indicators for 2022/23
Appendix C – Proposed Revised Treasury Management Indicators for 2022/23

VERSION:	1
CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	August 2022
BACKGROUND PAPERS:	