DECISION

DECISION : 2018/17	DATE 25 MAY 2018
TITLE: MINIMUM REVENUE PROVISION 2017/18	
REPORT BY: Steve Freeman, Chief Finance Officer **Appendix A refers**	

Executive Summary

This report sets out the requirement of the Police and Crime Commissioner (PCC) in respect of the Minimum Revenue provision (MRP) which is the policy that determines the accounting treatment of the cost of financing debt held by the organisation.

This report asks the PCC to review the basis being used to charge MRP to the accounts and recommends that the PCC agrees to amend the MRP policy in 2017/18.

Recommendations

The Police and Crime Commissioner is asked to:

- Approve amended MRP policy statement as set out in Annex 1 to the report.
- Note the impact of the change in MRP policy on the 2017/18 revenue budget position

Signature Clive Grunshaw

Police and Crime Commissioner

Date 25th May 2018

PART I

POLICE & CRIME COMMISSIONER FOR LANCASHIRE - REVIEW OF MINIMUM REVENUE PROVISION 2017/18

1. Background

Under statute the PCC must make a prudent charge to the accounts each year for the repayment of debt which is referred to as the minimum revenue provision (MRP). Although the basis of making this charge is not prescribed the Secretary of State has issued statutory guidance to which authorities are required to have regard. These guidelines are being updated with some regulations taking effect for accounting periods starting 1 April 2018. In particular, the new regulations state that a "change in method can never give rise to an overpayment in respect of previous years, and should not result in a local authority making a reduced charge or a charge of £nil for the accounting period in which the change is made, or in any subsequent period, on the grounds that it needs to recover overpayments of MRP relating to previous years". With the change in the regulations it is considered appropriate to review the existing MRP policy.

The guidance and calculation of the MRP has generally considered supported and unsupported borrowing separately. The supported borrowing primarily relates to capital expenditure funded from borrowing before 2007/8 where the government included provision to support the financing costs in the revenue support grant. Capital expenditure in subsequent years has been considered as self-financing or unsupported borrowing. It is considered that this distinction is retained and the options are considered below.

Unsupported Borrowing

Since 2007/8 several capital projects have been financed from unsupported borrowing. The Policy has always been to charge MRP on a straight line based on the estimated asset life derived from the capital project. This gives an equal MRP charge for each year. This is consistent with the statutory guidance which identifies asset life as being a suitable basis for calculating a prudent charge. The guidance also suggests that an annuity method may be appropriate. In this instance the MRP charge will be lower in the early years and rise each year. The guidance states this is advantageous to link the MRP to assets where the benefits of the project are expected to increase in later years. Although the annuity method would result in lower charges in the early years and could be used to generate a previous years overpayment it does not seem to be the most prudent method for the assets for which MRP is currently charged. If the annuity basis was adopted the cash generated would be reduced thereby increasing the need for borrowing or reduced investments. This loss would offset some of the gains from the lower MRP charge. Therefore no change in methodology is proposed although it will continue to be considered for future projects. The new regulations will allow the annuity to be adopted in the future on existing assets if it is considered appropriate although the back-dating would no longer be permissible.

Supported borrowing

For the debt which is supported by the government through the RSG system the guidance identified a capital financing requirement method. In effect this results a MRP charge based on 4% of balance remaining at the end of the prior year. The PCC has used this method principally as in theory it matched the support received in the RSG and also it is difficult to assign such old debt to specific assets it would not be possible to identify an appropriate asset life. However, since 2007/8 the funding of the public sector

PART I

POLICE & CRIME COMMISSIONER FOR LANCASHIRE - REVIEW OF MINIMUM REVENUE PROVISION 2017/18

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1.1. Under statute the PCC must make a prudent charge to the accounts each year for the repayment of debt which is referred to as the minimum revenue provision (MRP). Although the basis of making this charge is not prescribed the Secretary of State has issued statutory guidance to which authorities are required to have regard. These guidelines are being updated with some regulations taking effect for accounting periods starting 1 April 2018. In particular, the new regulations state that a "change in method can never give rise to an overpayment in respect of previous years, and should not result in a local authority making a reduced charge or a charge of £nil for the accounting period in which the change is made, or in any subsequent period, on the grounds that it needs to recover overpayments of MRP relating to previous years". With the change in the regulations it is considered appropriate to review the existing MRP policy.

1.2. The guidance and calculation of the MRP has generally considered supported and unsupported borrowing separately. The supported borrowing primarily relates to capital expenditure funded from borrowing before 2007/8 where the government included provision to support the financing costs in the revenue support grant. Capital expenditure in subsequent years has been considered as self-financing or unsupported borrowing. It is considered that this distinction is retained and the options are considered below.

Unsupported Borrowing

1.3. Since 2007/8 several capital projects have been financed from unsupported borrowing. The policy has always been to charge MRP on a straight line based on the estimated asset life derived from the capital project. This gives an equal MRP charge for each year. This is consistent with the statutory guidance which identifies asset life as being a suitable basis for calculating a prudent charge. The guidance also suggests that an annuity method may be appropriate. In this instance the MRP charge will be lower in the early years and rise each year. The guidance states this is advantageous to link the MRP to assets where the benefits of the project are expected to increase in later years. Although the annuity method would result in lower charges in the early years and could be used to generate a previous years overpayment it does not seem to be the most prudent method for the assets for which MRP is currently charged. If the annuity basis was adopted the cash generated would be reduced thereby increasing the need for borrowing or reduced investments. This loss would offset some of the gains from the lower MRP charge. Therefore no change in methodology is proposed although it will continue to be considered for future projects. The new regulations will allow the annuity to be adopted in the future on existing assets if it is considered appropriate although the back-dating would no longer be permissible.

Supported borrowing

1.4. For the debt which is supported by the government through the Revenue Support Grant (RSG) system the guidance identified a capital financing requirement method. In effect this results a MRP charge based on 4% of balance remaining at the end of the prior year. The PCC has used this method principally as in theory it matched the support received in the RSG and also it is difficult to assign such old debt to specific assets it would not be possible to identify an appropriate asset life. However, since 2007/8 the funding of the public sector has changed significantly. Given the level of past, and potential reductions in funding it seems valid to question whether the grant received includes a provision to repay debt at a level of 4%. In addition, the reducing balance methodology never effectively pays of the debt.

1.5. Taking into consideration the uncertainty regarding the support received and the never ending time-frame of the repayment of the debt it is considered appropriate to consider an alternative method of calculating the MRP. As previously stated although it is impossible to identify the assets for which the debt relates it will all be for capital expenditure some of which will have a very long term economic benefit. It is proposed that the debt should therefore be written off over 50 years which is back dated to start from 2007/8 to provide fairness between the years. It is proposed that this is on a straight line basis rather than an annuity basis therefore giving an equal charge over period.

1.6. The impact of introducing this policy in 2017/18 would be that the MRP from 2007/8 to 2016/17 has been overcharged by some £3.6m. It is proposed that the MRP on supported borrowing from 2017/18 is set at nil until the overpayment has been applied. It is estimated that the overpayment will be applied in full by 2022/23. The charge to MRP will then be £0.8m per year from 2023/24 onwards.

1.7. A revised MRP policy statement is attached at Annex 1, it is **recommended that the PCC approve the MRP policy for inclusion in the 2017/18 accounting period.**

2. Links to the Police and Crime Plan

All of the Commissioner's priorities are met through the effective allocation and management of the revenue budget and capital programme.

3. Consultations

Consultation with the PCC's treasury management advisors has taken place who are responsible for the day to day management of the PCC's cash, borrowing and investments

4. Implications:

a. **Legal**
Contained within the report

b. **Financial**
Contained within the report

c. **Equality Impact Assessment**
n/a

d. Data Protection Impact Assessment
n/a

5 Risk Management

The allocation of the revenue budget is considered as part of the overall financial stewardship for the Office of the Police and Crime Commissioner for Lancashire that ensures a legal and sustainable budget is set.

6. Background Papers

Contact/Telephone:	Steve Freeman Chief Finance Officer – 01772 533587

7. Public access to information

Chief Executive Officer (Monitoring Officer)

I have been informed about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lancashire.

Signature...Date...25·5·2018.......................

Minimum Revenue provision (MRP) Policy Statement

1. The PCC is required to assess MRP for 2017/18 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.
2. The major proportion of the MRP will relate to the more historic debt liability that has been charged in accordance with the Capital Financing Requirement method for MRP calculation. This option allows for the MRP to be calculated as 4% of the Capital Financing Requirement (CFR). The CFR is derived from the Balance Sheet and represents the value of the fixed assets, for which financing has not already been made. This method of calculation has been used by the PCC and previously the Police Authority, since the introduction of the MRP in 2004. However, given the uncertainty regarding the level of support and the open ended life of the debt it is proposed that the debt outstanding at 31.3.07 is charged to the accounts on a straight line basis over 50 years. This will mean that the MRP has been overcharged in earlier years which will be used to support a nil charge in 2017/18 and subsequent years until the over payment has been cleared. The charge will then be an equal charge over the remaining years.
3. Unsupported borrowing reflected within the debt liability will be subject to MRP under the Asset Life method, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building. Estimated life periods will be determined under delegated powers.
4. As some types of capital expenditure incurred by the PCC are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
5. In summary it is proposed that the PCC applies a straight line method of charging for the supported borrowing backdated to 2007/8.
6. The PCC currently applies the Asset Life method (Equal Charge approach) to capital expenditure financed by unsupported borrowing and it is proposed that this option also be continued.
7. The PCC's capital programme contains a scheme for the replacement of Blackpool police station which will involve an additional MRP charge to cover the financing of the new asset. This charge will be deferred, using current capital financing regulations, until the asset becomes fully operational, when savings will be realised from the restructure of the existing facilities. Deferring the MRP will only be applied for the construction of new assets.