Portsmouth CITY COUNCIL

Agenda item:

Title of meeting:	City Council
Date of meeting:	3rd June 2014
Subject:	Revised Minimum Revenue Provision for Debt Repayment Policy
Report by:	Head of Financial Services and Section 151 Officer
Wards affected:	All
Key decision:	Yes
Full Council decision:	Yes

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1. Purpose of report

To amend the Council's policy on the minimum revenue provision (MRP) i.e. - the amount of money set aside annually from the revenue budget for the repayment of debt. The intent is to allow the use of part of the City Deal Capital Grant (amounting to £48.5m in total) to fund the MRP and to then utilise the revenue funding saved to establish an earmarked reserve to hold those sums for the City Deal. This will then allow the Council to better align funding for the City Deal with its expenditure and minimise the risk of any repayment of the City Deal Grant to Government which has time restrictions attached to it for its use.

To enable the City Council to use the City Deal Grant for the repayment of debt in 2013/14 and 2014/15, the recommendations contained within this report to amend the Minimum Revenue Provision for Debt Repayment Policy need to be approved by 30th June 2014. If approved, the effect of this policy will be reflected in the Council's Statement of Accounts. The Accounts and Audit Regulations 2011 require the Council's Statement of Accounts to be prepared and signed by the Section 151 Officer by 30 June.

2. Recommendations

1) That the revised MRP for debt repayment policy for 2013/14 and 2014/15 contained in the Appendix be approved

2) That a sum equal to the reduction in MRP under the new policy be transferred to an earmarked reserve to fund capital expenditure related to the City Deal

3. Background

On 25 February 2014 the Department for Communities and Local Government informed the Council that it would receive a £48.75m grant under the City Deal to spend on the same purposes that a capital receipt can be spent by June 2015. Any City Deal grant not spent by 30 June 2015 becomes repayable to the Government. The main purposes on which a capital receipt and therefore the City Deal grant can be spent are capital expenditure and the repayment of the principal of any amount borrowed.

Capital expenditure included in the City Deal will continue long after 30 June 2015. In order to help to ensure that this grant can be fully spent (and not returned), it is proposed to use it to fund any capital expenditure which is not financed by ring-fenced resources. This will "free up" those non ring-fenced resources which are not time restricted to be recycled and used for the City Deal. After 30 June 2015, any non-ring fenced capital resources that were substituted by City Deal grant will be used to fund capital expenditure related to the City Deal.

4. Reasons for recommendations

In order to further ensure that the City Deal grant is spent by 30 June 2015, it is proposed that the City Deal grant be used to repay the entire principal due on the Council's debts in 2013/14 and 2014/15. It is recommended that the MRP for the repayment of debt policy be amended so that the MRP is reduced by the amount of principal repaid using City Deal grant. It is also recommended that a sum equivalent to the reduction in MRP be transferred to an earmarked reserve to fund City Deal capital expenditure in the future. This will help to ensure that the City Deal grant is spent by the 30 June 2015 deadline and that funding is available to finance capital expenditure related to the City Deal long past June 2015.

The Local Authorities (Capital Finance and Accounting) Regulations 2003 require local authorities to make a prudent amount of minimum revenue provision (MRP) for the repayment of debt. The Secretary of State has issued statutory guidance on determining the "prudent" level of MRP to which authorities are required to have regard. The statutory guidance requires authorities to prepare an annual policy on MRP for the repayment of debt for submission to full Council for approval.

5. Equality impact assessment (EIA)

The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

6. Legal Implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

7. Finance Comments

All financial considerations are contained within the body of the report and the attached appendices.

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Signed by the Head of Financial Services and Section 151 Officer

Appendices:

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	**Location**
Treasury Management Files	Financial Services

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 3rd June 2014.

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Signed by the Leader of the Council

APPENDIX

1 REVISED ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT

1.1 The Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2003 require the Council to make "prudent provision" for the repayment of General Fund debt from 2008/09 onwards. There is no requirement to make "prudent provision" for the repayment of Housing Revenue Account (Council Housing) debt. The Government has provided a definition of "prudent provision" which the Council is legally obliged to "have regard" to. The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

1.2 The guidance also requires the Council to adopt an Annual Minimum Revenue Provision (MRP) for Debt Repayment Statement. This is contained within paragraphs below.

2 GOVERNMENT- SUPPORTED BORROWING OTHER THAN FINANCE LEASES AND SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES

2.1 The Government has supported some local authority borrowing through the Formula Grant. Provision may be made for the repayment of existing and new government supported borrowing through the Capital Financing Requirement Method or the Regulatory Method.

2.2 For debt that is supported by Formula Grant, authorities are able to make revenue provision for the repayment by setting aside 4% of their Adjusted Non-Housing Capital Financing Requirement (CFR). The CFR represents the underlying requirement to borrow for capital expenditure. It takes the total value of the City Council's fixed assets and determines the amount that has yet to be repaid or provided for within the Council's accounts. The CFR is adjusted so that it excludes self-financed debt incurred after 1 April 2008. This is known as the CFR Method.

2.3 Alternatively, for debt that is supported by Formula Grant, authorities are able to continue to use the formulae in the previous regulations, since Formula Grant is calculated on that basis. This is known as the Regulatory Method. This method is also based on the CFR but is adjusted by the effect of the previous regulations. This method is more complex than the CFR method. However it is estimated that the MRP under this method will be £320k less per annum than under the CFR method. Therefore the Regulatory Method of calculating MRP will be applied to pre 1 April 2008 debt and new government supported debt.

3. SELF- FINANCED BORROWING OTHER THAN FINANCE LEASES, SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INITIATIVE SCHEMES, AND BORROWING TO FUND LONG TERM DEBTORS INCLUDING FINANCE LEASES

3.1 For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, there are three options offered by the guidance, the Asset Life (Equal Instalment) Method, the Asset Life (Annuity) Method and the Depreciation Method. The guidance suggests that the Asset Life (Annuity) Method is only appropriate for projects where income or savings will increase over time. Both the Asset Life (Equal Instalment) Method and the Depreciation Method should result in a similar MRP. Of these two methods the Asset Life method is the simplest to calculate and this method will be used. MRP will begin to be made in the year after the asset is completed.

4 FINANCE LEASES AND ON BALANCE SHEET SERVICE CONCESSIONS INCLUDING PRIVATE FINANCE INIATIVE SCHEMES

4.1 The move to International Financial Reporting Standards has involved arrangements under the Private Finance Initiative (PFI) and service concessions coming onto the balance sheet. A part of the service charge or rent payable will be taken to reduce the balance sheet liability rather than being charged to the service revenue account. This accounting treatment is similar to that for finance leases. Under these leases the risks and rewards of asset ownership rest with the City Council and the assets are shown on the City Council's balance sheet. These leases are therefore in effect a form of borrowing. Statutory guidance allows, in the case of finance leases and on balance sheet service concessions including PFI contracts, the MRP requirement to be regarded as met by a charge equal to the element of the rent / charge that goes to write down the balance sheet liability. This methodology will be used to calculate the MRP on finance leases and service concessions including PFI arrangements.

5 SELF FINANCED BORROWING TO FUND LONG TERM DEBTORS INCLUDING FINANCE LEASES

5.1 The income received from long term debtors has an interest and a principal element. The interest element is credited to the revenue account. The principal part of the income receivable will be taken to reduce the loan asset on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt. Capital receipts can principally be used to finance new capital expenditure or repay debt. The Council's policy is that the principal element of the rent receivable will be set aside to repay the borrowing that financed these assets.

5.2 Under finance leases the risks and rewards of asset ownership rest with the lessee and the assets are not shown on the City Council's balance sheet. These leases are therefore in effect a form of lending. A part of the rent receivable will be taken to reduce the loan asset value on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt which can principally be used to finance new capital expenditure or repay debt. The Council's policy is that the principal element of the rent receivable will be set aside to repay the borrowing that financed these assets.

6 USE OF CITY DEAL GRANT FOR PRINCIPAL REPAYMENTS OF DEBT

6.1 In order to ensure that the City Deal grant is spent by 30 June 2015, the City Deal grant will be used to repay the entire principal due on the Council's General Fund debts in 2013/14 and 2014/15. The MRP will be reduced by the amount of principal repaid using City Deal grant. The MRP exceeds the principal due on the Council's debts in both 2013/14 and 2015/16. The revised MRP will therefore be the amount set aside under the existing policy less the amount of principal on debt actually repaid using City Deal grant. This will enable a sum equivalent to the reduction in MRP be transferred to an earmarked reserve for funding City Deal capital expenditure. This will help to ensure that the City Deal grant is spent by the 30 June 2015 deadline and that funding is available to finance capital expenditure related to the City Deal.

7 HOUSING REVENUE ACCOUNT (HRA) BORROWING

7.1 There is no statutory requirement for the HRA to provide for the repayment of its debt. On 28 March 2012 the HRA was required to make a self-financing payment to the Government of £88.619m. The HRA will continue provide for the repayment of this debt over 30 years in line with the HRA Business Plan. The HRA will continue its practice of not providing for the repayment of its other debts.