BARNSLEY METROPOLITAN BOROUGH COUNCIL

Report of the Director –
Finance, Assets and Information Services

Audit Committee – 20th April 2016

THE COUNCIL'S REVISED MINIMUM REVENUE PROVISION (MRP) POLICY

1. Purpose of Report

1.1 The purpose of this report is to provide the Audit Committee with a background note on the rationale behind the Council changing its MRP policy.

2. Recommendations

2.1 It is recommended that the Audit Committee notes the content of the attached Cabinet report in relation to the Council's revised MRP policy with effect from 2015/16.

3. Background & Statutory Context

3.1 The Authority set's it MRP policy on an annual basis which is set within a statutory framework.

3.2 Regulations 27 and 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require that a local authority "shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent". MRP is a charge to the revenue account in relation to capital expenditure financed from borrowing (or credit arrangements), and is sometimes referred to as a provision for "debt repayment".

4. Proposals and Justification

4.1 The Council's previous MRP policy used both annuity and equal instalment methods to repay debt.

4.2 The Council is seeking to revise its MRP policy to solely adopt the annuity method, only repaying debt over a standard 50 year repayment period, unless a more appropriate timescale is suitable. The proposed changes are justifiable on a prudent basis taking into account the following:-

- Adopting a single method (i.e. annuity) ensures that the Council adopts a consistent approach to the way it treats its debt going forward;
- Adoption of the annuity method recognises the time value of money i.e. a £1 being worth more today than in 22 years time, whereas the equal instalment basis unduly penalises the current tax payer in comparison to the future tax payer. This is fundamental to the change in policy as it equitably spreads the true cost of capital across all generations of Council Tax payer;
- Adopting a 50 years average repayment period for non-school assets is a reasonable and prudent average. This is in line with the methodology adopted by other authorities and which is supported by our professional valuers;

- Using a 60 year average life for school assets (as now) is equally prudent. Many of the Authority's schools are part of PFI/BSF programmes with the purpose of maintaining them in day 1 condition at the end of the 25 year programme; and
- The policy is affordable in 'cash' terms because the Council will free up a General Fund budget that currently supports the BSF programme. It is estimated that this will increase to £10M by the end of the 25 year programme (on a prudent estimate of future indexation which is required regardless to pay the contractor) and this will be used to offset the 'cash' increase in capital financing costs.

4.3 Cabinet has approved the proposed changes in full. These changes are considered to be consistent with the statutory duty on the Council to make prudent provision, having regard to the statutory guidance. They take into account the Council's strict and cautious approach to MRP to date as well as the Council's future financial circumstances.

4.4 Council officers have worked up detailed modelling to reflect the changes and these have been incorporated within the Authority's final accounts position for 2015/16.

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