

## **Report of the PFCC's Chief Finance Officer to the Police, Fire and Crime Commissioner for North Yorkshire**

**28<sup>th</sup> February 2019**

**Status: For Decision**

### **Minimum Revenue Provision 2019/20 - Policing**

#### **1. Purpose**

- 1.1 Minimum Revenue Provision (MRP) is the annual revenue provision that authorities have to make in respect of their debts and credit liabilities. The requirement to make MRP has existed since 1990.
- 1.2 A report is necessary to seek approval from the PFCC as to the annual MRP strategy.
- 1.3 The MRP strategy complements the wider financial picture which aims to provide transparency on the cost to the PFCC of taking on new borrowing, therefore linking into the PFCC's prudential indicators and the overall management of the PFCC's assets.

#### **2. Recommendations**

The PFCC is asked to approve:

- 2.1 The MRP Strategy for 2019/20 as follows:
  - Option 2 ("Capital Financing Requirement Method") be used to calculate the MRP on any future supported borrowing (after 1<sup>st</sup> April 2008).
  - Option 3 ("Asset Life Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1<sup>st</sup> April 2008).

### **3 Reasons**

- 3.1 Minimum Revenue Provision is the annual revenue provision that authorities, which are not debt free, have to make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the PCC of taking on new borrowing. The requirement to make MRP has existed since 1990.
- 3.2 The regulations place a general duty on local authorities to make a Minimum Revenue Provision which is considered to be prudent, with the responsibility being placed upon the PFCC to approve an Annual MRP Strategy each year.
- 3.3 The Capital Financing and Accounting Regulations require that an Annual MRP Strategy be adopted by the PFCC prior to the start of the coming financial year. The PFCC can change the method of calculating MRP on an annual basis (subject to the constraints set out below). Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way (that is, the PFCC can not change the method of calculating MRP on individual assets).
- 3.4 Options Available

Four options are outlined within the regulations for authority's to follow as to the calculation of MRP, however there are certain factors which predetermine the option the PCC must adhere to, depending on the timing of the borrowing (that is before or after the 1<sup>st</sup> April 2008) and whether the borrowing is supported or unsupported:

  - 3.4.1 Option 1 ("Regulatory Method") and Option 2 ("Capital Financing Requirement (CFR) Method") can only be used to calculate the MRP in the following circumstances:
    - Existing borrowing against capital expenditure that was incurred before the 1<sup>st</sup> April 2008 (regardless of whether the borrowing was supported or unsupported).
    - Supported borrowing incurred after the 1<sup>st</sup> April 2008.
  - 3.4.2 Option 3 ("Asset Life Method") and Option 4 ("Depreciation Method") can only be used to calculate the MRP for new schemes that require the PCC to take on unsupported borrowing after the 1<sup>st</sup> April 2008.

Appendix 1 provides a glossary of some of the terms used in the paper and calculations. Appendix 2 shows how the MRP figure is calculated under each of the options discussed above.

- 3.4.3 To minimise the impact on revenue the PCC is asked to approve:
- Option 2("Capital Financing Requirement Method") be used to calculate the MRP on any future supported borrowing (after 1<sup>st</sup> April 2008)
  - Option 3 ("Asset Life Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1<sup>st</sup> April 2008)

## **4 Implications**

### 4.1 Finance

The financial implications of this Strategy are factored into the Medium Term Financial Plan.

### 4.2 Diversity & Equal Opportunities

There are no diversity or equal opportunity implications arising from this report.

### 4.3 Sustainability

The MRP Strategy aims to provide transparency as to the cost to the PFCC of taking on new borrowing and links with the Prudential Indicators to determine the sustainability and affordability of all unsupported borrowing undertaken.

### 4.4 Risk

There is a risk that as decisions are made, or contemplated, in relation to future capital investments, that the organisation does not take into account the full implications of the revenue consequences of those decisions by excluding the MRP implications in the analysis and subsequently fails to provide sufficient funds within the revenue budget to meet this statutory charge. Any new borrowing that the PFCC takes out will incur a MRP charge in the revenue budget which will specifically relate to the asset acquired or enhanced. This 'charge' will need to be built into the revenue budget to ensure the PFCC has sufficient resources available to meet the liability.

## **5 Conclusion**

This report seeks approval from the PFCC on the treatment and calculation of MRP, and the Strategy that is used by the PFCC and therefore ensures that the PFCC is in line with the Local Authority Regulations.

Michael Porter  
Chief Finance Officer for the PCC

### Glossary of Terms

**Adjustment A** – Technical accounting adjustment set out in regulations to ensure consistency with previous Capital Regulations

**Capital Financing Requirement (CFR)** – Amount needed to finance the Capital Programme from previous years (borrowing) and current year (capital receipts, grants etc.)

**Prudential Indicators** – In order to assess the PCC's ability to afford borrowing when making capital financing decisions and to ensure that prudent levels are set. These indicators show the projected and actual position together with limits which can only be exceeded with approval and in exceptional circumstances

**Supported Borrowing** – Borrowing for which the Government will provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects

**Unsupported (Prudential) Borrowing** – Borrowing under the Prudential Code for which the Government will not provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects.

### **Supported Borrowing (after 1<sup>st</sup> April 2008) and any Previous Borrowings**

**Option 1 ("Regulatory Method")** – This method is not available to the PCC as the PCC currently has no borrowing that falls within this area. Option 1 would be calculated as 4% of the total Capital Financing Requirement for all borrowing, less Adjustment A:

$$4\% (CFR - AA)$$

Where:

- CFR = Capital Financing Requirement
- AA = Adjustment A

**Option 2 ("Capital Financing Requirement (CFR) Method")** – this uses the same formula as Option 1 but does not take account of Adjustment A.

$$4\% (CFR)$$

Where:

- CFR = Capital Financing Requirement

### **Unsupported Borrowing (after 1<sup>st</sup> April 2008)**

**Option 3 ("Asset Life Method")** – The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset

**Option 4 ("Depreciation Method")** - The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B - D}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset
- D = Residual Value of the Asset

The only difference between the two methods of calculating the MRP is that there is recognition in option 4 that the asset will still be worth 'something' after its useful life has expired.