TO: Executive Committee – Commercial Property
17 July 2018

MINIMUM REVENUE PROVISION FOR COMMERCIAL PROPERTY INVESTMENTS
Borough Treasurer

1 PURPOSE OF REPORT

1.1 To update the Executive Committee on the latest position around the impact of the new Government guidance on MRP.

2 RECOMMENDATIONS

2.1 That the Executive Committee notes the information set out in this report and receives a further update from the Borough Treasurer at the meeting.

3 REASONS FOR RECOMMENDATIONS

3.1 To make the Executive Committee aware of the financial impact of the Commercial Property Investment Strategy and the impact on additional income following changes to the Government guidance on MRP.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 These are set out in the report and in the supplementary information to be presented by the Borough Treasurer.

5 SUPPORTING INFORMATION

5.1 An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue income (i.e. by allowing for repayment of borrowing). The charge made to the revenue account for the latter is called the Minimum Revenue Provision (MRP).

5.2 MRP is not a cash transaction; it is an accountancy charge that has a real impact on authorities' net revenue budgets (it is included in the Council Tax calculation) but not on their cashflows. A "prudent" calculation of MRP needs to be provided for in the budget, but the money is not actually spent, i.e. it makes a provision for debt repayment but is not actually used for this purpose. There has never been an expectation that authorities would actually repay debt using MRP.

5.3 Councils typically take different approaches to calculating a prudent level of MRP depending on the type and nature of the asset, with the methods included in their Council approved Treasury Management Strategies. Bracknell Forest chose to defer MRP on its newly acquired commercial properties on the basis that the borrowing associated with them would be repaid by disposing of the assets at a future time, i.e. assuming that it would be funded from a future capital receipt.

5.4 The Government issued new guidance related to calculating MRP in February 2018. This tightened up the rules related to purchases of commercial properties in particular, but did not expressly prohibit local authorities from investing in them.

5.5 Having sought and received differing views from colleagues in other authorities in relation to the impact of the guidance, the Borough Treasurer sought Counsel's opinion. A detailed paper on the legislative framework regarding MRP and Counsel's view of Bracknell Forest's approach to MRP for commercial property investments is attached as Annex A to this report.

5.6 While Counsel advised that the guidance does not need to be slavishly followed, his view is that an approach that provides for no MRP would not be regarded as within the intent of the guidance and CIPFA's Prudential Code, hence would risk being regarded as "imprudent" by most judges.

5.7 The Borough Treasurer has considered the advice provided and concluded that it is necessary to charge some level of MRP for the new commercial properties. This will reduce the level of benefit being realised through the CPIS, which will be around £2.6m in 2018/19 based on purchases to date, but not negate it.

5.8 Counsel has been asked to comment on a possible alternative approach to the standard "asset life" method that is included in the guidance. A response is still awaited and further information will be presented to members at the meeting.

5.9 Members may wish to note that authorities with borrowing who need to allow for repayments (MRP) spend slightly less in cash terms each year than their net revenue budgets would suggest. This "surplus" cash is available to support overall cashflow and can help generate interest receipts or defer the need to actually borrow to fund capital investment. However, the financial benefit is taken into account in the overall Treasury Management and is fairly negligible (around £1k for every £1m of Capital Financing Requirement), particularly with the bank [base] rate and borrowing rates having been so low for so long.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 As set out in the report external legal advice was sought prior to the drafting of this report. The contents are reflected therein and in the supporting annex.

Borough Treasurer

6.2 The Commercial Property Investment Strategy is a key element in the Council's Transformation Programme and is intended to realise net additional income of £3m by 2019/20. This report sets out the implications of the change to Government guidance on MRP that will affect the Council's ability to achieve this target income level.

Equalities Impact Assessment

6.3 There will be no impact on specific groups arising from this report.

Strategic Risk Management Issues

6.4 Commercial investment, by its nature, cannot be risk free. The approach to the CPIS is intended to strike a balance between minimising the Council's risk exposure while

allowing it to generate significant additional income to help bridge the gap in the budget resulting from reduced government funding.

Other Officers

6.5 The Chief Officer: Property has been consulted on the contents of the paper and his input is reflected therein.

7 CONSULTATION

Principal Groups Consulted

7.1 None

Method of Consultation

7.2 Not applicable

Representations Received

7.3 None

Background Papers

Annex A – Approach to Minimum Revenue Provision for Commercial Property Investments

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