**LGA Briefing on Statutory guidance on Local Government Investments and Statutory guidance on Minimum Revenue Provision**

On 2 February MHCLG published updated statutory guidance on capital finance (on [local government investments](https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition) and on [minimum revenue provision](https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition)). This followed a consultation that closed in December 2017. The Government has also published their [response](https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance) to the consultation proposed changes. The LGA [responded](https://www.local.gov.uk/sites/default/files/documents/LGA%20response%20prudential%20framework%20of%20capital%20finance%20final.pdf) to this consultation.

This short note highlights the key changes from the consultation. It also highlights the main new or revised areas of guidance.

The requirement on local authorities in relation to statutory guidance is that they are required to “have regard” to such guidance.

**Investment guidance**

1. The guidance applies from 1 April 2018, as per the consultation.
2. The guidance includes a new requirement for councils to prepare an investment strategy at least once a year. The format and presentation of this will not be prescribed, so long as it is approved by full council. Councils will be able to decide how this information is structured; it could be prepared as part of another document such as the capital strategy or the treasury management strategy, for example.
3. Councils will be required to disclose the contribution that investments make “towards the service delivery objectives and / or place making role of the local authority”. This is an improvement on the proposal in the consultation which was for identifying the contribution towards “core functions”. It is not clear where this disclosure will need to be made; presumably it could be part of the investment strategy
4. As part of the disclosure process referred to above, councils will be required to include indicators that enable councillors and the public to assess the authority’s investments and the decisions taken. The final guidance does not require that all councils produce the same indicators to enable inter authority comparisons (benchmarking). This is an improvement on the consultation and is in line with our response which raised concerns that what had been proposed would have been a significant burden.
5. However, the informal commentary published alongside the guidance does specify indicators, including two new indicators that measure gross debt as a percentage of net service expenditure and commercial income as a percentage of net service expenditure. The intention of the informal commentary is to direct councils to produce these set indicators; however, the actual statutory guidance does allow councils the flexibility to specify what indicators they want to publish, provided they allow consistent comparison between years within the authority.
6. Local authorities will have to set limits for these indicators of gross debt and commercial income as a percentage of net service indicator that cannot be exceeded. It is not clear how this will work in practice. It is clear from the commentary that if the authority finds that it currently exceeds the limits it has set for itself as described above, it will not need to dispose of investments currently held in order to meet those limits.
7. Under the guidance councils may not “borrow in advance of need” to profit from the investment of the sums borrowed. This is not new. What is new is that this will apply to non-financial investments (e.g. investment in commercial property that is solely commercial) rather than just financial investments (this can be understood by cross referring all parts of the prudential framework, including the two Cipfa codes). In the past, investments in commercial property would have counted solely as capital expenditure and so could have been funded from borrowing; now this will only apply where the council can justify that the investment is not wholly commercial.
8. Where a council chooses to disregard the Prudential code and this guidance, its investment strategy should set out why this is the case and what the councils relevant policies are.

**Minimum Revenue Provision (MRP)**

1. Minimum Revenue Provision (MRP) is the calculated annual charge to the revenue account of provision to repay debt incurred in respect of capital expenditure financed by borrowing or other long term credit arrangements (such as PFI).
2. The key change is that the Guidance will not be implemented in full until 2019/20. This was something we called for very clearly as 2018/19 implementation would cause problems.

1. In the past, reassessments of MRP methodology have meant that some councils have calculated too much provision for MRP in the past and they have therefore either taken this back to the revenue account (to spend on current services) or not paid MRP for some time until their assessment means they need to make further provision. Under the new Guidance it will not be possible to take a credit from the MRP account if there has been over provision in the past. However, it will still be possible to take a holiday for this reason
2. Councils will not, however, be able to change the basis of their MRP calculation in order to calculate that an overpayment was made in previous years, in order to enable an MRP holiday in the future. This will apply from 1 April 2018, before the rest of the guidance.
3. The guidance sets maximum economic life for assets in assessing MRP. The consultation proposed setting maximum times for this. The guidance is slightly more flexible than the consultation in that the special position of PFI assets has been recognised. There is also some flexibility where the authority has a professional opinion that an operational asset will deliver benefits for more than the maximum economic life as set out in the guidance. However, in the past some councils have argued that they have not needed to make MRP for some investments as any borrowing would be repaid by selling the assets sometime in the future; this will not now be possible meaning MRP will need to be made for these assets.