Report to: **Cabinet**

Subject: **Minimum Revenue Provision Policy Statement 2010/11**

Date: **18 February 2010**

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1. PURPOSE OF REPORT

This report presents the Minimum Revenue Provision Policy Statement 2010/11 for Members' approval.

2. BACKGROUND

A local authority is required to charge a Minimum Revenue Provision (MRP) to its revenue accounts in each financial year, to provide for the repayment of borrowing undertaken in respect of its capital expenditure, which is generally expenditure on assets which have a life expectancy of more than one year, for example, buildings, vehicles, machinery etc.

The MRP was previously determined under the Local Authorities (Capital Finance and Accounting) Regulations 2003. This was substituted with SI 2008 no. 414 s4, which lays down that "a local authority shall determine for the current financial year an amount of Minimum Revenue Provision that it considers to be prudent." The broad aim of a "prudent" provision is to ensure that borrowing is repaid over a period that reflects the useful lives of assets.

Along with the above duty, the Government issued new guidance in February 2008, requiring that a Statement of the Council's policy for its MRP should be submitted to the full Council for approval, before the start of the financial year to which the MRP will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the annual MRP than was possible under the previous statutory requirement. There is no intention in the guidance to be prescriptive, the overriding recommendation being that the MRP should be "prudent". The guidance does not, however, define "prudent", instead making recommendations on the interpretation of the term, and offering four main options, as detailed below.

- **Option 1 – Regulatory Method**

  MRP is equal to the amount determined under the former regulations of the 2003 Act, as if they had not been revoked by the 2008 Act. This method must continue for all capital expenditure incurred in years before the start of the new MRP arrangements. It may also be used for new Government-supported borrowing supported under the grant system, but not for new prudential (self-financed) borrowing.

- **Option 2 – Capital Financing Requirement Method**

  This method is based on 4% of the Capital Financing Requirement (CFR). The CFR is a measure of the authority's outstanding debt liability and is balance sheet derived. The method may also be used for new borrowing supported under the grant system, but not for new prudential borrowing.

- **Option 3 – Asset Life Method**

  This method may be applied to new capital expenditure financed by both Government-supported borrowing and prudential borrowing. It is intended that MRP should be spread over the useful lives of the assets created. Advantages of this method are that borrowing for longer life assets, eg. freehold land, can be spread over much longer periods than would arise under Options 1 or 2, and that no MRP is made until the financial year in which expenditure on the asset is fully incurred or, in the case of a new asset, it comes into service. This "MRP holiday" is not available under Options 1 or 2.

  Option 3 should be applied where an authority incurs expenditure which is financed by borrowing, and is treated as capital expenditure by virtue of a direction under section (2)(b) of the 2003 Act, or regulation 25(1) of the 2003 regulations, eg, grants towards capital expenditure by third parties. The MRP guidance indicates the number of years of "useful life" to be used for each type of expenditure in this category.

  MRP under Option 3 may be calculated using either an equal instalment method, or an annuity method, whereby annual payments gradually increase during the life of the asset.

- **Option 4 – Depreciation Method**

  This method may be applied to new capital expenditure financed by both Government-supported borrowing and prudential borrowing. MRP charges are linked to the useful life of each type of asset using the standard accounting rules for depreciation, but with some exceptions, ie. it is a more complex approach than Option 3.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent MRP, having had regard to the guidance and its own circumstances.

3. MRP POLICY STATEMENT 2010/11

The following Statement is proposed for 2010/11:

1. The Council implemented the new MRP guidance in 2009/10, and now assesses MRP in accordance with the main recommendations under SI 2008 no. 414.

2. Option 1, the regulatory method, will be used for calculating MRP in respect of all capital expenditure incurred up to and including 31 March 2008.

3. Option 3, the Asset Life Method, will be used for calculating MRP in respect of all capital expenditure incurred on and after 1 April 2008. An equal instalment approach will be adopted.

4. The Head of Corporate Services will determine estimated asset lives. Where different types of expenditure are involved, it will be grouped together in a manner which best reflects the nature of the main component of expenditure. It will only be divided up in cases where there are two or more major components, with significantly different asset lives.

5. When the authority undertakes self-financed borrowing under the Prudential Code to acquire an asset and makes MRP based on the asset life method, there is still a rise in CFR, which is in turn the basis of the MRP calculation under the old regulatory method, potentially leading to a double count. Accordingly the new arrangements provide for the use of an "adjusted version of the CFR", solely for the purpose of calculating MRP on expenditure falling under the old regulatory method (see paragraph 1 above).

6. In view of the economic climate and the considerable budgetary pressures, the Council will no longer provide for an additional voluntary contribution to MRP.

4. MRP ESTIMATE 2010/11

Based on the above policy, the total MRP charges for 2010/11 are currently calculated as £420,100 as detailed below, and this sum has been included in the Council's 2010/11 budget proposals. The exact amount of MRP will be subject to change should capital financing decisions alter during the year.

	£
Option 1 – Regulatory Method	329,400
Option 3 – Asset Life Method	90,700
TOTAL MRP	**420,100**

5. RECOMMENDATION

It is recommended that: Members note the MRP Policy Statement for 2010/11 at paragraph 3, and refer it to full Council for approval.