



Report to: Council

Subject: Minimum Revenue Provision Statement 2007/08 and 2008/09

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1. PURPOSE OF REPORT

- 1.1 This report presents the proposed Minimum Revenue Provision Statements in respect of 2007/08 and 2008/09 for approval.

2. BACKGROUND

- 2.1 Local Authorities are required to charge a Minimum Revenue Provision (MRP) to their revenue account each financial year to provide for the repayment of borrowing undertaken in respect of capital expenditure.
- 2.2 The former method of calculating MRP was set out in accounting regulations which have now been revised by the Local Authorities (Capital Finance and Accounting) Regulations 2008 in conjunction with MRP guidance published by the Department of Communities and Local Government.
- 2.3 The new regulations replace the detailed rules contained in the former regulations with a simple duty for an authority each year to make an amount of MRP which it considers to be "prudent". The regulation itself does not define "prudent provision", however, the MRP guidance makes recommendations to authorities on the interpretation of that term. As well as simplifying the system, the shift in emphasis from regulations to guidance is intended, for example, to help promote development schemes which would have been hindered by the inflexibility of the former regulatory regime.

- 2.4 The operative date of the change is 31 March 2008, which means that it applies to the financial year 2007/08 and to subsequent years. Authorities are required to prepare an annual statement of their policy on making MRP for submission to full council before the start of the financial year. Due to the timing of the regulations the statements in respect of the years 2007/08 and 2008/09 are required to be made as soon as practicable during the financial year 2008/09. The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year.
- 2.5 The broad aim of prudent provision is to ensure that borrowing is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implied in the determination of the grant.
- 2.6 The MRP guidance sets out four options of making prudent provision, which are detailed below, subject to conditions.

Option 1: Regulatory Method

MRP is equal to the amount determined under the former regulations as if they had not been revoked.

Option 2: Capital Financing Requirement (CFR) Method

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.

Option 3: Asset Life Method

MRP is determined by reference to the life of the asset which is to be financed by borrowing.

Option 4: Depreciation Method

MRP is equal to the provision required in accordance with depreciation accounting in respect of asset which is to be financed by borrowing.

Options 1 and 2 should only be used for Government-supported borrowing and not that which is self-financed. As a transitional measure Options 1 and 2 can be used for both supported and self-financed borrowing in respect of capital expenditure incurred before 1 April 2008. There are no restrictions on the use of Options 3 and 4.

3. PROPOSAL

3.1 Minimum Revenue Provision Statement 2007/08 and 2008/09

It is proposed that Option 1, the regulatory method, is used for calculating the MRP for 2007/08 and 2008/09, for both Government-supported and self- financed borrowing in respect of capital expenditure incurred prior to 1 April 2008. (MRP is provided in the year following that in which the capital expenditure is incurred)

The amount of MRP calculated using this method is included in the approved budgets for 2007/08 and 2008/09 and therefore use of the transitional measure ensures a neutral impact on the taxpayer for these years. In addition to the regulatory MRP the Council also provides for a Voluntary Contribution to MRP in it's budget to recognise that some of the assets financed by borrowing e.g. vehicles, have a shorter life than the term implied in the regulatory method i.e. 25 years.

The total proposed MRP amounts are as follow:

	<u>2007/08</u>	<u>2008/09</u>
	£	£
MRP Regulatory Method	425,400	602,900
MRP Voluntary Contribution	36,200	38,000
Total MRP	461,600	640,900

3.2 During 2008/09 the Finance tasks of reviewing programmed maintenance budgets and defining the asset management fund are due to be completed. It is proposed that a fundamental review of MRP policy be undertaken following the outcome of these tasks and giving regard to the new MRP regulations and guidance. Following the review of the policy if an amendment to the MRP statement is required this will be presented to Council for consideration.

4. RESOURCE IMPLICATIONS

- 4.1 The total amounts detailed in the MRP Statement for 2007/08 and 2008/09, at 3.1 above, are included in the Council's approved budgets for each year respectively.

5. RECOMMENDATION

- 5.1 It is recommended that Members approve the Minimum Revenue Provision Statements and amounts of £461,600 for 2007/08 and £640,900 for 2008/09, as detailed at paragraph 3.1 above.