**Report to:** **Council**

**Subject:** **Minimum Revenue Provision Statement 2009/10**

**Date:** **25 February 2009**

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## PURPOSE OF REPORT

This report presents the Minimum Revenue Provision Statement in respect of 2009/10 for Members' approval.

## 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. This is generally expenditure on assets having 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 has been 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, which requires 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 that was required 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MRP is equal to the amount determined under the previous regulations, as if they had not been revoked. MRP is set at 4% of the authority's Capital Financing Requirement (CFR), adjusted for "Adjustment A". The CFR is a measure of the authority's outstanding debt liability, and is balance sheet derived. 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 borrowing supported under the grant system, but not for new prudential borrowing.

- Option 2 – CFR Method

This method is also based on 4% of the CFR, but without any adjustment for Adjustment A".

- Option 3 – Asset Life Method

This method may be applied to most new capital expenditure. 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

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 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.

**MRP POLICY STATEMENT 2009/10**

The MRP Statement presented to Council on 23 April 2008 noted that a fundamental review of MRP was to be undertaken during 2008/09. Having completed this review, the following Statement is proposed for 2009/10:

1. The Council will implement the new MRP guidance in 2009/10, and assess its MRP in accordance with the main recommendations in the guidance issued by the Secretary of State under SI 2008 no. 414.

2. Option 1, the regulatory method, will be used for calculating MRP at 4% of CFR adjusted for “Adjustment A” in respect of all capital expenditure incurred up to 31 March 2008.

3. The Council will continue to provide for an additional voluntary contribution to MRP, to recognise that some assets financed by borrowing up to 31 March 2008, eg. vehicles, have a much shorter life than that implied in the regulatory method, ie. a 4% charge implies a life of 25 years, and few vehicles have lives this long.

4. Option 3, the Asset Life Method, will be used for calculating MRP in respect of all expenditure incurred on and after 1 April 2008, ie. the first charge falls against the 2009/10 accounts. An equal instalment approach will be adopted.

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 purposes calculation of MRP on expenditure falling under the old regulatory method (see paragraph 1 above).

6. Estimated asset lives will be determined by the Head of Corporate Services under delegated powers. Where different types of expenditure are involved, it will be grouped together in a manner best reflecting 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.

7. Summary of MRP Charges for 2009/10

| | £ |
|---|---:|
| | |
| Option 1 – Regulatory Method | 342,800 |
| Option 3 – Asset Life Method | 48,700 |
| | |
| **Sub Total** | **391,500** |
| | |
| Voluntary MRP | 37,900 |
| | |
| **TOTAL MRP** | **429,400** |

An MRP charge of £429,400 has been included in the Council’s 2009/10 budget proposals.

**AMENDMENT TO MRP STATEMENT FOR 2008/09**

The MRP Statement for 2008/09 was presented to Council on 23 April 2008, indicating a total MRP of £640,900. As a result of significant slippage on the 2007/08 capital programme, a reduced amount of borrowing was applied to the financing of the programme. MRP is charged in the year following that in which borrowing is applied, allowing a reduction of £77,800 in the MRP for 2008/09. The revised charge is calculated as £563,100. In accordance with Government guidance, such a change must be reported to Council. The table below shows the original and revised figures.

| | | |
|---|---|---|
| | £ | £ |
| | Original | Revised |
| | | |
| Regulatory Method | 602,900 | 525,000 |
| Voluntary MRP | 38,000 | 38,100 |
| | | |
| **TOTAL MRP** | **640,900** | **563,100** |

**RECOMMENDATIONS**

It is recommended that:

1. Members approve the Minimum Revenue Provision Statement for 2009/10, together with a total MRP of £429,400.

2. That Members approve the reduction in MRP for 2008/09 to £563,100