County Council

26th June 2008

Minimum Revenue Provision (MRP) - Local Authorities Capital Finance and Accounting (England) (Amendments) Regulations 2008

Report of Stuart Crowe, County Treasurer
[Cabinet Portfolio Member for Corporate Resources, Councillor Michele Hodgson]

Purpose of the Report

1 To approve the methodology for calculating Minimum Revenue Provision (MRP) for 2007/08 and 2008/09 and to provide information on the Local Authorities Capital Finance and Accounting (England) (Amendments) Regulations 2008.

Background

2 The Secretary of State has now made the Local Authorities Capital Finance and Accounting (England) (Amendment) Regulations 2008 effective from 31 March 2008, which include changes to the capital finance system.

3 The 2008 Regulations (Statutory Instrument 414 of 2008) is attached at Appendix 2.

4 The regulations relating to MRP require authorities to make a prudent provision for debt repayment. CLG have provided statutory guidance outlining what this means in practice.

5 The Secretary of State recommends that a statement of the methodology to be used by authorities be approved by the full Council before the start of each financial year. For 2007/08 and 2008/09 this should be done as soon as possible in 2008/09.

6 For 2007/08 authorities have the choice of continuing to use the previous methodology or adopting one of the options in the guidance.

Minimum Revenue Provision (MRP)

7 Previously year local authorities were required to set aside some of their revenue as provision for repayment of debt. MRP was calculated

each year and is required to be a minimum of 4% of capital financing requirement at the start of the year. In addition, an authority could voluntarily set aside amounts in excess of the minimum required.

8 These rules have now been replaced with a duty for an authority to provide for an amount of MRP which it considers to be "prudent". CLG has issued guidance on MRP and this is attached at Appendix 3. The regulations do not define "prudent provision", however the CLG's MRP guidance does make recommendations to authorities on the interpretation of the term.

9 The guidance explains that the broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably close to the time over which the capital expenditure will provide benefits. In the case of borrowing supported by Government through the Formula Grant System, it would be reasonable to link the period of making provision broadly with that used in the calculation of the grant, which is 4% of the estimated supported capital expenditure and 4% equates to the repayment of debt over 25 years.

10 The operative date of the change is 31st March 2008 meaning it applies to financial year 2007/08 and subsequent years.

11 MRP should normally start in the financial year following the one in which the expenditure was incurred.

Options for Prudent Provision

12 Four options for prudent provision are detailed in the CLG guidance at Appendix 3.

Option 1: Regulatory Method:
MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, the calculation that is currently undertaken which broadly equates to 4%.

Option 2: CFR Method:
MRP is equal to 4% of the non-housing capital finance requirement (CFR) at the end of the preceding financial year.

Option 3: Asset Life Method:
MRP is based on the life of the asset and there are 2 main methods by which this can be achieved:

1. Equal Instalment method
2. Annuity Method

Option 4: Depreciation Method:
MRP is equal to the provision for depreciation of the asset.

Conditions for using the Options

13 Options 1 and 2 may be used in relation to:

- Capital expenditure incurred before 1 April 2008; and
- Capital expenditure incurred on or after that date which the Authority is satisfied forms part of its Supported Capital Expenditure.

14 For expenditure incurred on or after 1 April 2008 which does not form part of the Authority's Supported Capital Expenditure, prudent approach includes Options 3 and 4 (which may also be used at the Authority's discretion in relation to all capital expenditure whether or not supported and wherever incurred).

15 For all expenditure treated as capital by virtue of a capitalisation direction or regulation 25(1) of the Local government Act 2003, incurred on or after 1st April 2008, authorities should use Option 3 – but this must be adapted in accordance with paragraphs 23 and 24 of CLG guidance.

16 After consideration of the four options, and bearing in mind that the County Council has no new unsupported borrowing, option 1 is the preferred option for the County Council for 2007/08.

17 For 2008/09, option 3 is the preferred method of calculation, using the Equal Instalment Method.

18 This will be reviewed in future years as part of the budget setting process.

Recommendations

19 It is **RECOMMENDED** when determining the minimum revenue provision:

For 2007/08:

- Option 1 (Regulatory Method) is used in relation to all capital expenditure for 2007/08.

For 2008/09:

- Option 1 (Regulatory Method) is used in relation to all capital expenditure before 1st April 2008, but only for capital expenditure financed by supported borrowing after 1st April 2008.

- Option 3 (Asset Life Method) is used for capital expenditure financed by unsupported borrowing after 1st April 2008.

And that:

- An Annual Statement of Policy is included in future annual budget reports when setting the budget.

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Appendix 1: Implications

Finance
Local Government Reorganisation
(Does the decision impact upon a future Unitary Council?)

No

Finance
None

Staffing
None

Equality and Diversity
None

Accommodation
None

Crime and disorder
None

Sustainability
None

Human rights
None

Localities and Rurality
None

Young people
None

Consultation
None

Health
None

Appendix 2: Statutory Instrument

http://www.opsi.gov.uk/si/si2008/pdf/uksi_20080414_en.pdf

Appendix 3: Communities and Local Government MRP Guidance

http://www.local.communities.gov.uk/finance/capital/statguidmrp.pdf