Key Decision Required:	No	In the Forward Plan:	No

CABINET

10 NOVEMBER 2010

REPORT OF HEAD OF FINANCIAL SERVICES

A.5 ANNUAL MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT FOR 2011/12
(Report prepared by Jim Smetherham)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To seek Cabinet's approval of the Annual MRP policy statement for 2011/12 for recommendation to Council on 7 December 2010.

EXECUTIVE SUMMARY
Attached as **Appendix A** is the proposed Annual MRP policy statement for 2011/12 which sets out how assets funded by borrowing are accounted for and is required to be approved by Council each year. The policy sets out how the Council will make provision for the eventual repayment of any borrowing taken to finance capital expenditure. The policy, which is unchanged from 2010/11, proposes that for the General Fund where new borrowing is undertaken in accordance with the prudential code, and is therefore not supported by Central Government via the Formula Grant, the provision is calculated on a straight line method over the initial life expectancy of the asset, but where the cost of new borrowing is supported by Central Government Formula Grant then the provision is calculated at a rate of 4% pa. For the Housing Revenue Account (HRA) it is proposed that as in previous years no MRP is made as the level of debt is considerably less than the value of the assets.

RECOMMENDATION
That Cabinet recommends to Council the Annual Minimum Revenue Provision (MRP) Policy Statement for 2011/12 as set out in Appendix A.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES
In itself the MRP policy does not have a direct impact on delivering priorities although the financing of capital investment by borrowing in accordance with the Prudential Code will help deliver priorities.

FINANCE, OTHER RESOURCES AND RISK
Finance and other resources The annual MRP policy sets out how the Council will make provision for the repayment of loans taken out to finance capital investment. For General Fund the MRP is a direct charge on the revenue budget. No MRP is determined for Housing revenue account capital investment. The Government proposals which would result in the self financing of the HRA may have an impact on this policy in future. **Risk** Agreement of the strategy itself has little risk. However, any capital investment must be considered to make sure that it is affordable. The relevant risks must also be considered in the retention, management or sale of assets.

LEGAL
The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require the Council's policy on calculating a minimum revenue provision (MRP) to be approved by Council each year.

OTHER IMPLICATIONS
Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below. **Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.** There are no other implications in agreeing the policy itself. However, all of the above would need to be assessed when considering individual capital projects.

PART 3 – SUPPORTING INFORMATION

BACKGROUND
The MRP policy statement for 2010/11 was approved by Council on 18 February 2010.

CURRENT POSITION
One of the options to finance capital investment is borrowing from external sources such as the Public Works Loan Board (PWLB) or on the financial markets. Unlike a mortgage where amounts of principle are repaid each month, the borrowing undertaken by this Council is usually repayable on maturity at an agreed future date. To reflect this, the minimum revenue provision (MRP) exists which is a concept whereby an amount is charged to revenue each year in order to have sufficient monies set aside to meet the future repayment of principle on any borrowing undertaken. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require the Council's policy on calculating a minimum revenue provision (MRP) to be approved by Council each year. Although this has previously been done at the same time as the budget report, it is more appropriate to agree the policy earlier so that it can be taken into account in setting the budget. Therefore the proposed policy statement for 2011/12 is attached as **Appendix A** to this report.

BACKGROUND PAPERS FOR THE DECISION
There are none.

APPENDICES
Appendix A – MRP Policy Statement 2011/12

Appendix A

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT for 2011/12

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require the Council's policy on calculating a minimum revenue provision (MRP) to be approved by Full Council each year.

Unlike a mortgage where amounts of principle are repaid each month, the borrowing undertaken by this Council is usually repayable on maturity at an agreed future date. To reflect this, the minimum revenue provision (MRP) exists which is a concept whereby an amount is charged to revenue each year in order to have sufficient monies set aside to meet the future repayment of principle on any borrowing undertaken.

Rules and formulae in respect of MRP were amended from 2008, and these now require that an Annual Minimum Revenue Provision Policy Statement be presented to Members for approval. The Policy Statement is required to be approved by Full Council each year, which links to existing requirements to report other prudential activity and indicators to Full Council for consideration.

The regulations require Local Authorities to set aside as its annual MRP an amount that it considers to be "prudent" rather than simply applying 4% as was the previous requirement. The aim of the regulations is that the period over which an MRP is calculated closely relates to the life of the asset.

However in the case of the Housing Revenue Account it has been the Council's policy not to make any MRP charge to the HRA because the level of borrowing relating to the HRA is significantly less than the value of the Housing stock (£18m compared to £145m as at 31 march 2010)

The options applicable in calculating MRP are as follows:

Where Capital Expenditure is financed by Government Supported Borrowing

- **Regulatory Method –** This is where borrowing is supported by the Government through the Formula Grant and Local Authorities can continue to use the existing approach as set out in the old regulations.

- **Capital Financing Method –** Similar to the above, Local Authorities can continue to set aside 4% of their General Fund capital expenditure financed by borrowing each year as MRP. The difference compared with the regulatory method is that it excludes a transitional adjustment that relates to the regulations that were applicable before the current regulations. As this adjustment does not apply to TDC, the two approaches are essentially the same.

Where Capital Expenditure is financed by Prudential Borrowing

- **Asset Life Method –** Two alternatives are provided within the guidance. The first is that MRP can be calculated by taking the amount borrowed and dividing it by the associated assets useful life – equal instalment method. The second is based on a more complicated annuity basis although based on the same principle.

- **Depreciation Method –** This requires that an MRP is made in accordance with current rules for depreciation accounting whereby an amount would be charged equal to the annual depreciation of the specific asset which could differ from the previous options given the alternatives for calculating depreciation.

A significant advantage of the asset life method over the depreciation method is that MRP does not have to start until the year the related asset becomes operational which may be different to the year in which depreciation would be charged.

It is important to note that subject to the type of asset acquired there may be a significant impact on the revenue budget, which would need to be taken into account in any future spending / borrowing decisions.

Based on the above, the approach to calculating MRP approved by Full Council for 2010/11 was that the **Capital Financing Requirement Method** be applied for supported borrowing and the **Asset Life (equal instalment) Method** for prudential borrowing.

Having reviewed the position for 2010/11, no changes are proposed. Therefore the Annual Minimum Revenue Provision Policy Statement for 2011/12 is as follows:

In accordance with the Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008, the Council's policy for the calculation of MRP for 2011/12 shall be the Capital Financing Requirement Method for supported borrowing and the Asset Life (equal instalment) Method for prudential borrowing except that in line with current practice no MRP charge will be made to HRA in respect of its share of the Council's debt.