Key Decision Required:	No	In the Forward Plan:	No

CABINET

7 NOVEMBER 2012

REPORT OF FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDER

A.5 ANNUAL MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT FOR 2013/14

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek Cabinet's approval of the Annual MRP policy statement for 2013/14 for recommendation to Council.

EXECUTIVE SUMMARY

Attached as **Appendix A** is the proposed Annual MRP policy statement for 2013/14 that sets out how assets funded by borrowing are accounted for, which 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 2012/13, proposes that 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. Although there are no expectations of supported borrowing within the General Fund, for completeness the policy in respect of any potential future supported borrowing has also been set out and is based on a rate of 4% pa.

RECOMMENDATION

That Cabinet recommends to Council the Annual Minimum Revenue Provision (MRP) Policy Statement for 2013/14 as set out in Appendix A be approved.

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 would 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. At present no MRP is determined for Housing Revenue Account capital investment although future provision will be considered within the business planning process following the implementation of the new self financing reforms from April 2012.

However the HRA has made a commitment to repay amounts borrowed to fund the self financing settlement over the 30 year life of the business plan. Therefore in effect the principal repaid will become the HRA's minimum revenue provision contribution.

Risk

Agreement of the strategy itself has minimal risk. However, each capital investment must be considered carefully to make sure that it is affordable. All 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 sets out the requirements of a minimum revenue provision (MRP) which must 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 AND CURRENT POSITION
The current MRP policy statement for 2012/13 was approved by Full Council on 29 November 2011. 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 set out the requirements in calculating a minimum revenue provision (MRP) which must be approved by Council each year. The timing of approval of the MRP is to enable it to be taken into account when setting the budget. The proposed policy statement for 2013/14 is attached as **Appendix A** to this report.

BACKGROUND PAPERS FOR THE DECISION
None.

APPENDICES
Appendix A – MRP Policy Statement 2013/14

Appendix A

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT for 2013/14

The Council is required to have a policy on providing a prudent minimum revenue provision which must 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.

The regulations require Local Authorities to set aside as its annual MRP an amount that it considers to be "prudent". 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. Following the implementation of the new self financing arrangements from April 2012, the structure of the borrowing to fund the associated HRA debt settlement was based on principal being repaid over the 30 years of the HRA business plan. Therefore this principal is in effect the amount set aside to repay debt and will therefore be treated as HRA MRP. In terms of MRP for 'old' HRA debt, this will be reviewed as part of future HRA business planning processes.

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 current approach to calculating MRP that was approved by Full Council on 29 November 2011 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 2013/14, no changes are proposed. Therefore the Annual Minimum Revenue Provision Policy Statement for 2013/14 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 2013/14 shall be the Capital Financing Requirement Method for supported borrowing and the Asset Life (equal instalment) Method for prudential borrowing.