<u>Minimum Revenue Provision (MRP) Policy Statement</u>

The concept on the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to make an annual charge to the General Fund of 4% of the General Fund Debt.

These regulations have now been amended and Department for Local Government & Communities (DCLG) issued new regulations in 2008 which require a local authority to calculate for the current financial year an amount of MRP which it considers “prudent”. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or in case of borrowing supported by government, reasonably consummate with the period implicit in the determination of the grant. The Council can choose to charge more than the minimum.

It is a requirement of these new regulations that full Council approve an annual MRP Statement of its policy on making MRP.

As capital expenditure is incurred which cannot be immediately financed through capital receipts or grant the Council’s borrowing need (its Capital Financing Requirement) will be positive and an MRP will be required. In practice the Council is unlikely to need to borrow externally in the medium term as it has sufficient revenue investments, arising from the Council’s reserves and balances to cover this expenditure. However it will still need to make a charge to revenue for this “internal borrowing”.

The move to International Financial Reporting Standards (IFRS) in local government is expected to bring more PFI schemes on balance sheet and to result in some leases (or parts of leases) being reclassified as finance lease instead of operating leases. These contracts would become subject to the requirement to provide MRP. IFRS requires these changes to be accounted for retrospectively. With the result that an element of the rental or service charge payable in previous years will be taken to the balance sheet to reduce the liability. On its own this change would result in a one-off increase to the capital financing requirement, and an equal increase in revenue account balances. This is not seen as a prudent course of action and as such the guidance recommends the inclusion in the annual MRP charge of an amount equal to the amount that has been taken to the balance sheet to reduce the liability, including the retrospective element in the first year.

The guidance sets out four options for making MRP. It envisages that authorities can distinguish between borrowing that is “supported” (through the RSG system) and other “unsupported or prudential” borrowing. The first two methods should only be used for “supported” borrowing

1) The regulatory method. This is involves following the existing practice outline in the former DCLG regulation. For the Council this is essentially the same as the CFR method.
2) The CFR Method. This involves setting the MRP equal to 4% of the Capital Financing Requirement at the end of the preceding year. This is the method the Council has used in setting its MRP since the prudential system was introduced in 2003.
3) The Asset Life Method. This method requires MRP to be charged over the asset life. The asset life is determined in the year MRP commences and is

not changed. MRP will not be charged until the asset becomes operational. Therefore it will be possible to take an MRP holiday for those assets in construction.

4) The Depreciation Method. This requires the MRP to equal the actual depreciation based on standard accounting procedures.

Recommended Policy

In setting the 2010/11 budget and beyond the following policy is recommended:

1) There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.
2) The Council will identify the level of "supported borrowing" and use the CFR Method i.e 4% of this figure as part of the MRP charge. The supported borrowing will be used in full irrespective of the service block the funding was allocated in the grant settlement and will also be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.
3) For the remaining "unsupported borrowing" the Council will use the asset life method. We will use standard categories of asset life to streamline the process: These will be:
    - Freehold land – 50 years
    - Major new building on council owned land – 40 to 70 years (unless design life is demonstrably shorter)
    - Planned maintenance – 10 years
    - Major refurbishment of existing buildings -10 years
    - IT Equipment – 4 years
    - IT systems – 10 years
    - Other Equipment – 5 years
    - Infrastructure assets – 20 years
    - Vehicles & Plant - 7 Years

The actual charge made in the year will be based on applying the above policy to the previous years actual capital expenditure and funding decisions. Therefore the 2010/11 charge will be based on 2009/10 capital out-turn.