WILTSHIRE COUNCIL **AGENDA ITEM NO. 20**

IMPLEMENTATION EXECUTIVE
13 MAY 2009

MINIMUM REVENUE PROVISION (MRP) ANNUAL POLICY STATEMENT

Executive Summary

This report sets out the Council policy on making a Minimum Revenue Provision for the financial years 2007/08 and 2009/10 in accordance with Local Authorities (Capital Finance and Accounting) Regulations 2008.

Proposal

That the Implementation Executive adopt the Minimum Revenue Policy as specified in this report under Option 1 for Supported Borrowings and Option 3 for Unsupported Borrowings for the financial year 2009/10

Reason for Proposal

The annual adoption of the Minimum Revenue Policy is a regulatory responsibility of the Council

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MINIMUM REVENUE PROVISION (MRP) ANNUAL POLICY STATEMENT

Purpose of Report

1. The Report outlines the changes in the LAAP Regulations with regards to the provision of the Minimum Revenue Provision (MRP) and recommends the policy to be adopted for the financial year 2009/10

Background

2. Following the publication of the Local Authorities (Capital Finance and Accounting) Regulations issued on 26 February 2008 local authorities are required to have approved by Council an annual policy for making a Minimum Revenue Provision (MRP) at the start of each year.

3. The MRP is the amount of revenue which an authority sets aside for the repayment of the debt as a result of borrowings to finance capital expenditure. It is therefore a real cost to the revenue account and impacts upon the level of council tax.

4. Since 2003 the former Wiltshire County Council and District Councils have followed the prescribed formula for the calculation of MRP. Thus each year the Council have set aside an MRP equal to 4% of the capital finance requirement less historical adjustments to correct amendments in line with transition rules applied to pre 2003 calculation of MRP.

5. In addition to the MRP, councils were able to charge a Voluntary Revenue Provision (VRP). This was discretionary and reflected the application of prudence to cover capital items that had a shorter economic lifespan of less than 25 years and therefore costs were provided for over a shorter period.

The New Regulations

6. On 26 February 2008 Parliament approved the Local Authorities (Capital Finance and Accounting) (England) Regulations. The strict adherence to the prescribed formula was removed and replaced by a requirement that Authorities set aside an amount of MRP each year which the Authority considers to be prudent.

7. The Regulations offer guidance as to the definition of prudence which is based on the underlying principle that the MRP provision to repay debt should be no longer than the life of the asset which was procured.

8. The revised regulations are to be applied to assets procured or become operational after April 1st 2008.

Recommended MRP Calculations Options

9. There are four recommended methods for the calculation of the MRP. Two of these options 1 & 2 are similar to the current system and will be applied for current historical debt and new assts procured with supported borrowings. The other two options 3 & 4 relate to the life span of the asset procured from unsupported borrowings.

10. Options 1 – Regulatory Method and Option 2 Capital Financing Method are calculations authorities have been utilising since 2003. They are both based on the legislation to set aside 4% of the borrowing requirement for repayment. In the case of Option 1 the historical adjustment is used. Option 1 is the method recommended to be utilised in the future for capital raised through Supported Borrowing.

11. Option 3, Asset Life Method & Option 4, Depreciation are both similar and intended to be utilised for all Unsupported Borrowings, where the Authority has raised capital under the Prudential Indices Rules.

12. Under these two options MRP is linked to the life of the asset procured. Once the life cycle has been set at the time of procurement or when the asset has become operational this period will be utilised at all times even in the event that the asset has been re-valued.

I.e. If: A = Value of the Asset
B = Accumulated value of MRP
C = Life span of the asset left

$$MRP = \frac{A-B}{C}$$

This means that any asset purchased using unsupported borrowings which has an economic life cycle of less than 25 years will now have an annual revenue cost of MRP of more than 4%.

13. Under Option 4 any impairment of an asset which has a nil reserve in the revaluation account would have to be written of to the General Fund in line with strict rules of depreciation charge whereas Option 3 would allow the impairment to be reversed into the Capital Adjustment Account i.e. not affecting the General Fund Balance (Council Tax).

14. Transitional Arrangements:

    MRP is calculated in the financial year after the capital expenditure has been incurred. Therefore it is the capital spends in 2007/08 which provides the information to calculate the MRP to be set aside in the revenue account for 2008/09. The new regulations have also added an exception to this in that if the expenditure has been incurred on an asset which has not become operational (i.e. long term building project) the MRP does not need to be set aside. This has been called the "MRP" holiday. As the new regulation have only recently been approved the Government has put in place transitional arrangements which allow Authorities to work towards full implementation by 2009/10 with the capital programme for 2008/09 impacting on the revenue account for 2009/10.

15. In the interim Authorities can continue to use the MRP calculation of 4% less historical adjustments plus any VRP.

16. This is the basis upon which the 2009/10 budget was prepared.

Main Considerations for the Implementation Executive

17. The Regulations state that at the start of each financial year the Council must approve an MRP Annual Policy Statement which should define which of the options the Authority intends to use for the coming year.

Environmental Impact of the Proposal

18. No environmental issues have been identified arising from this report

Equality and Diversity impact of the Proposal

19. No issues have been identified arising from this report

Risk Assessment

20. The Risk is using unsupported borrowings to fund assets with short economic life cycles in the future will be more than was required by regulation. To mitigate this the authority will need to carefully consider the application of unsupported borrowing in the setting of future revenue budgets.

Financial Implications

21. These changes will have implications in the way the Capital Programme is formulated and funded. In the past the MRP for any

capital scheme was 4%. Now the MRP (plus possible VRP) will vary for each capital scheme depending on the life of the asset.

22. Wiltshire Council have recognised that although the MRP policy at this time is 4% of Capital Financing Requirement there is also a mechanism to set aside a Voluntary Revenue Provision (VRP) to bring in line the set aside figure to match the lifespan of the assets. Thus the actual MRP charge in 2009/10 after adopting this policy should actually be similar to the current level included in the Budget 2009/10 charge for MRP plus VRP.

Legal Implications

23. The change in policy is as a result of changes in legislation and this report ensures compliance.

    There are no other legal issues arising from this report

Conclusions

24. The Proposal is to take advantage of the transitional arrangements and continue to use Option 1 i.e. 4% for MRP calculations for 2008/09 whilst working towards meeting the new regulations for 2009/10.

25. For Financial Year 2009/10 the recommendation is adopt Option 1, relating to historical and assets procured from supported borrowing and Option 3 for assets procured from unsupported borrowings.

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Unpublished documents relied upon in the preparation of this report:

The preparation of this report has taken into account the "Local Authorities (Capital Finance and Accounting) Regulations 2008".