



**Report to:** Cabinet, Joint Cabinet and Overview and Scrutiny and Council

**Date:** 19<sup>th</sup> February and 11<sup>th</sup> March 2009

**Subject:** Annual Minimum Revenue Provision (MRP) Statement 2009/10

**Report of:** Service Director – Corporate Services

**Contact officer:** Andrew Taylor

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**Purpose / summary:** To approve the MRP Policy for 2009/10.

**Alternative options considered and reason for selecting the one recommended:** None

**Recommendation / decision:** Cabinet is asked to recommend that Council reaffirm the policy that was agreed last year.

That the regulatory method for calculating MRP be used for both supported borrowing and self-financed expenditure in the short term to finance projects which are in the longer term financed from grant or capital receipts.

For unsupported borrowing in respect of short life assets the depreciation method of calculating repayment provision shall be employed

This is consistent with the decisions taken in the budget

**Risks / Implications:**

Financial: No change to current budget levels

Staffing: None

Policy: MRP Policy

Equal Opportunities - Has a Diversity Impact Assessment been conducted? A diversity impact assessment is not necessary at this stage, however equality and diversity implications have been considered.

Wards affected: All Wards

**Property – Does the proposal involve a reduction, addition or change to the Council’s asset base or its occupation? No**

**Does this proposal have significant implications for the Council and the local population?**

A diversity impact assessment is not necessary at this stage, however equality and diversity implications have been considered when producing this report

**Does this proposal involve a new policy or procedure or significant changes to an existing policy or procedure? No**

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Has the Service Director – Borough Solicitor confirmed that the recommendations within this report are lawful and comply with the Council’s Constitution? **Yes / No \***

Has the Service Director – Corporate Services confirmed that any expenditure referred to within this report is consistent with the Council’s budget? **Yes\***

Are any of the recommendations within this report contrary to the Policy Framework of the Council? **No\***

\* delete which applicable

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**For Cabinet reports only :**

Categorisation of the report:	<b>x</b>		<b>X</b>
Discussion leading to a decision		Discussion	
Monitoring		Decision	<b>X</b>
Sharing for corporate understanding		Information	

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**Tracking/Process:**

	Consultation	Ward Members	Partners
Panel	Overview & Scrutiny	Cabinet	Council
		19 <sup>th</sup> February 2009	4 <sup>th</sup> March 2009

List of Background Papers in accordance with Section 100D of the Local Government Act 1972:

Document	Date	File Reference	Place of Inspection
Statutory Instrument 2008 414	Laid before Parliament 26 <sup>th</sup> February 2008.		Financial Planning, Finance Division, Business Support Services, Civic Centre or  <u>Statutory Instrument Website</u>  <a href="http://www.opsi.gov.uk/si/si2008/pdf/uksi_20080414_en.pdf">http://www.opsi.gov.uk/si/si2008/pdf/uksi_20080414_en.pdf</a>

Proper Officer Mr P McKevitt

Date 4<sup>th</sup> February 2009

## **Background**

The concept of Minimum Revenue Provision (MRP) was introduced in 1989 to prescribe the minimum amount which must be charged to the revenue account each year to meet credit liabilities (borrowing and leasing costs). This system has now been radically revised by the Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008 and requires an annual statement setting out the method of calculation of MRP – basically the amount we set aside to repay loans. There is now a duty for Authorities to make a prudent MRP in the financial year.

## **What is considered Prudent provision?**

Provision for the repayment of debt is considered to be prudent where the period of repayment is either reasonably commensurate with that over which the capital expenditure to which it relates provides benefits, or in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

## **Proposals:**

Under the amended regulations, four options for calculating MRP are set out as follows:-

### **1. Regulatory Method**

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. The MRP element of the RSG (Revenue Support Grant) is calculated on this basis.

*This method is currently employed by Wigan Council for all government supported borrowing and unsupported borrowing which is being used in the short term to finance projects which are in the longer term financed from grant or capital receipts.*

### **2. Capital Financing Requirement (CFR) Method**

The Capital Financing Requirement (CFR) is calculated from the Authority's Balance Sheet (rather than the outstanding debt) and represents the amount of deemed borrowing to fund its assets.

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.

### **3. Asset Life Method**

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

(a) Equal instalment method

MRP is the amount given by the following formula:

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

Where-

A is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements

B is the total provision made before the current financial year in respect of that expenditure

C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay, over the asset life, the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

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

The estimated life of the asset should be determined in the year that MRP commences and not subsequently be revised.

If no life can reasonably be attributed to an asset, such as freehold land, the life should be taken to be a maximum of 50 years. However, in the case of freehold land on which a building or other structure is constructed, the life of the land may be treated as equal to that of the structure, where this would exceed 50 years.

When borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. "Operational" here has its standard accounting definition. Investment properties should be regarded as becoming operational when they begin to generate revenues.

#### **4. Depreciation Method**

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose standard depreciation accounting procedures should be followed, except in the following respects.

MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.

On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.

Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

*This method is currently employed by the Authority to calculate repayment of debt for unsupported borrowing on the purchase of short life assets such as vehicles and equipment.*

### **Options which may be used.**

Under transitional arrangements any of the four options may be used for supported expenditure or self-financed expenditure (prudential borrowing) in 2008/09. When full adoption is required in 2009/10, Options 1 and 2 will normally be used for supported expenditure, it is considered prudent also to continue the use of Option 1 for unsupported borrowing which is being used in the short term to finance projects which are in the longer term financed from grant or capital receipts.

The aim in the long term is to move to MRP based on either asset life or depreciation.

### **MRP Policy for 2009/10.**

It is proposed to continue with the regulatory method for calculating MRP for both supported and unsupported borrowing which is being used in the short term to finance projects which are in the longer term financed by grant or capital receipts.

For unsupported borrowing in respect of short life assets the depreciation method of calculating repayment provision shall be employed.

The Service Director – Corporate Services has the discretion to make additional voluntary provision for debt repayment.

### **Alternative options considered and reason for the recommended option:**

Statutory requirement. Options chosen as they represent the most practical, prudent and affordable methods.

### **Recommendation**

The Cabinet is asked to recommend to the Council that the above Statement on MRP is adopted for 2009/10.

Council are recommended to adopt the above policy statement.

