

Report to: Cabinet and Council

Date: 26th June 2008 and 9th July 2008

Subject: Annual Minimum Revenue Provision (MRP) Statement 2007/08 and 2008/09

Report of: Executive Director of Business Support Services

Contact officer: Andrew Taylor 01942 827243 x2243

Purpose / summary: New regulations, which came into force on 31st March 2008 mean that the Council must adopt a new policy on MRP. In practice this will mean adopting formally (as required by the new regulations) the practice which has been employed since the inception of Prudential Borrowing at Wigan Council.

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

Recommendation / decision: Cabinet is asked to recommend that Council adopt the following MRP policy statements for 2007/08 and 2008/09.

It is proposed to continue with the regulatory method for calculating MRP for both supported and self-financed expenditure 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 Executive Director of Business Support Services has the discretion to make additional voluntary provision for debt repayment.

Key Decision: This report does not involve a key decision. The decision made as a result of this report will

be published within **48 hours** and cannot be actioned until **seven working days** have elapsed, i.e. before 26th June 2008

Risks / Implications:

Financial: No change to current budget levels
 Staffing: None
 Policy: MRP Policy
 Equal Opportunities - Has a Diversity Impact Assessment been conducted? No
 Wards affected: All

Property Implications – Does the proposal involve a reduction, addition or change to the Council’s asset base or its occupation?

No

If yes, have the property implications been agreed with the Corporate Property Officer?

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?

A diversity impact assessment has been undertaken and is attached as an appendix to this report.

Has the Service Director - Borough Solicitor confirmed that the recommendations within this report are lawful and comply with the Council’s Constitution?

Yes *

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

For Cabinet reports only:

Categorisation of the report:	X
Discussion leading to a decision	
Monitoring	
Sharing for corporate understanding	

	X
Discussion	
Decision	X
Information	

Tracking/Process:

	Consultation	Ward Members	Partners
Panel	Overview & Scrutiny	Cabinet	Council
		26 th June 2008	9 th July 2008

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 th February 2008.		Financial Planning, Finance Division, Business Support Services, Civic Centre Wigan or Statutory Instrument Website http://www.opsi.gov.uk/si/si2008/pdf/uksi_20080414_en.pdf

Proper Officer Dr D Smith

Date 12th June 2008

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 Finance and Accounting) (England) (Amendment) Regulations 2008 and requires an annual statement setting out the method of calculation of MRP. There is now a duty for Authorities to make a prudent MRP in the financial year. For this year only, two statements are required to cover the 2007/2008 and 2008/2009 financial years.

In future years the statement will be contained within the Budget Framework report in March. This was not possible this year because the regulations were laid before Parliament in late February.

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 regulations²⁸ 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 by grant or capital receipts.

2. Capital Financing Requirement (CFR) Method

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 (eg 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 Wigan Council 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 2007/08 and 2008/09. When full adoption is required in 2009/10 options 1 and 2 may only be used for supported expenditure.

MRP Policy for 2007/08 and 2008/09

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 Executive Director of Business Support Services has the discretion to make additional voluntary provision for debt repayment.

Alternative options considered and reason for the recommended option:

None

Recommendation

Cabinet is asked to recommend that Council adopt the MRP policy for 2007/08 and 2008/09 set out above.