BURY METRO

REPORT FOR DECISION

Agenda Item	

MEETING:	**THE EXECUTIVE COUNCIL**
DATE:	**18 March 2009 1 April 2009**
SUBJECT:	**MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT FOR 2009/10**
REPORT FROM:	**Executive Member for Resource**
CONTACT OFFICER:	**M Owen – Director of Finance and E-Government**

TYPE OF DECISION:	**COUNCIL DECISION**
FREEDOM OF INFORMATION/ STATUS:	**FOR PUBLICATION - This paper is within the public domain**

PURPOSE/SUMMARY:

The report sets out the suggested Minimum Revenue Provision (MRP) Policy for 2009/10.

RECOMMENDED OPTIONS:

It is recommended that the Executive approves, for onward submission to Council, the:

- Regulatory method for calculating MRP be used for supported borrowing
- Asset Life method of calculating repayment provision be used for unsupported borrowing

The Council is also asked to note that the methods of calculating MRP will be reviewed later in the financial year to determine the most practical, prudent and affordable methods and a further report will be put before Council to determine the final MRP policy for 2009/10.

IMPLICATIONS -

Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes
Financial Implications and Risk Considerations	See Statement by Director of Finance & E-Government
Statement by Director of Finance and E-Government:	Minimum Revenue Provision is an integral part of the Council's Treasury Management Strategy and

	it is essential that the correct strategy/policy is adopted in order to ensure that best value is obtained from the Council's resources and that assets are safeguarded. The MRP in 2007/08 was £3.975m
Equality/Diversity implications	No, see paragraph 11.1
Considered by Monitoring Officer: Are there any legal implications?	Yes No
Staffing/ICT/Property:	No implications
Wards Affected:	All
Scrutiny Interest:	Resource and Performance Scrutiny Commission

TRACKING/PROCESS **DIRECTOR:** Mike Owen

Chief Executive/ Management Board	Executive Member/ Chair	Ward Members	Partners
	Executive Member		
Scrutiny Commission	Executive	Committee	Council

1.0 BACKGROUND

1.1 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.

1.2 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 the grant.

2.0 THE OPTIONS

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

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted Capital Financing Requirement (CFR) (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the Supported Capital Expenditure annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments
b. annuity method – annual payments gradually increase during the life of the asset

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

2.2 The previous statutory MRP requirements cease to have effect after the 2006/07 financial year. However, the same basis of 4% charge may continue to be used without limit until the 2009/10 financial year, relative to expenditure incurred up to 31/3/2009.

2.3 In general it is recommended that authorities should adopt the recommendations contained within the guidance from the Department for Communities and Local Government. However, in certain cases the guidance may recommend a useful life period/MRP for expenditure which it may not be considered appropriate to adopt. It is suggested that full details of MRP options/principles adopted should be set out and approved as part of the annual MRP Policy Statement.

3.0 OPTIONS WHICH MAY BE USED FOR MRP IN 2009/10

3.1 The Minimum Revenue Provision for 2009/10 takes account of new capital expenditure incurred in 2008/09. Options 1 or 2 may be used only for supported expenditure. Methods of making prudent provision for unsupported expenditure include options 3 or 4 (which also may be used for supported expenditure if the authority so chooses).

4.0 INITIAL MRP POLICY FOR 2009/10

4.1 It is proposed to use the Regulatory method (option 1) for calculating MRP for supported borrowing and the Asset Life method (option 3) for calculating the repayment provision for unsupported borrowing (for the reasons set out in paragraph 2.1).

4.2 The impact will depend on the shape of the authority's Capital Programme and the extent to which unsupported borrowing is used. For this reason a review of the methods of calculating MRP will be undertaken later in the financial year to determine the most practical, prudent and affordable methods and a further report will be put before Council to determine the final MRP policy for 2009/10.

5.0 EQUALITY & DIVERSITY

5.1 An initial input assessment has been undertaken and it is concluded that there will be no negative impact from this report.

COUNCILLOR PETER REDSTONE
EXECUTIVE MEMBER FOR RESOURCE

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