Shropshire Council

Committee and date	Item No
Council 10th December 2009 10 am	 Public

REVISED MINIMUM REVENUE PROVISION STATEMENT - 2009/10

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Summary

1.1 This Council is required by statute to set aside a minimum revenue provision (MRP) for the repayment of external debt. The calculation of the minimum revenue provision (MRP) is as per the *Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414].* In regulation 28, detailed rules are replaced with a simple duty for an Authority to make an amount of MRP which it considers to be "prudent".

1.2 The legislation recommends that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to the Full Council for approval. If it is proposed to vary the terms of the original statement during the year, a revised statement should be put to Council at that time. The MRP Statement for 2009/10 was approved by members in February 2009 as part of the Treasury Management Strategy.

1.3 The MRP Statement for 2009/10 included the proposal to voluntarily set aside capital receipts inherited from the previous Authorities to reduce the Capital Financing Requirement and the MRP charge. Approval has been received from DCLG to set aside the capital receipts as at 1st April 2009 and benefit from the reduced MRP charge in 2009/10, rather than waiting until 2010/11. Based on this, this report contains the revised MRP statement for 2009/10.

Recommendations

Members are asked:

A. To approve the setting aside of £26,814,600 in useable capital receipts as at 1st April 2009.

B. To approve the revised MRP Statement for 2009/10.

REPORT

2 Minimum Revenue Provision

2.1 The Council is required by statute to set aside a minimum revenue provision (MRP) for the provision to repay external debt. The calculation of the minimum revenue provision (MRP) is as per the *Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414].* In the regulation 28, detailed rules are replaced with a simple duty for an authority to make an amount of MRP which it considers to be "prudent".

2.2 The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure 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. The guidance includes four options (and there are two alternatives under Option three) for the calculation of a prudent provision.

2.3 There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial years. There is also no requirement to charge MRP on the Housing Revenue Account share of the CFR.

2.4 The legislation recommends that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to the Full Council for approval. If it is proposed to vary the terms of the original statement during the year, a revised statement should be put to Council at that time.

3. Policy for calculation of Prudent Provision

3.1 The options for the calculation of a prudent Provision are detailed in appendix 1 to this report. In line with previous years the Council proposes to use option one, regulatory method and option three (a), asset life method – estimated life method.

4. Regulatory Method

4.1 For debt which is supported by the Government through the Revenue Support Grant (RSG) system, MRP will continue to be calculated in accordance with the former regulations 28 and 29 of the 2003 Regulation. Adjustment "A" (variance between the credit ceiling and the capital financing requirement as at 1 April 2004) will continue to be given the value attributed to it in the financial year 2004/05. Authorities can also continue to take advantage of the commutation adjustment in the former regulation 29.

4.2 MRP is calculated using opening Capital Financing Requirement which is adjusted for new supported capital expenditure, adjustment "A", non Shropshire Council (pre-1998 LGR reorganisation) debt and the MRP for the previous year. MRP is calculated as 4% of this adjusted total. This is then reduced by the value of the commutation adjustment for that financial year.

4.3 This option reduces the Capital Financing Requirement by adjustment "A" which reduces the MRP charged to revenue each year. This is allowable in accordance with the regulations.

5. **Asset Life Method – Asset Life method**

5.1 For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed (unsupported borrowing) the MRP has been calculated in accordance with option three, Asset Life Method. Option three is to make provision over the estimated life of the asset for which the borrowing is undertaken.

5.2 Freehold land cannot properly have a life attributed to it, so for the purposes of Option three it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the Authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

5.3 To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

5.4 This method is a straight forward calculation of MRP for unsupported borrowing which calculates MRP based on asset life.

5.5 As with option one, provision for debt under Option three will normally commence in the financial year following the one in which the expenditure is incurred. But the guidance highlights an important exception to the rule. In the case of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This "MRP holiday" would be perhaps two or three years in the case of major projects, or possibly longer for some complex infrastructure schemes, and could make them more affordable. The Council does not have any unsupported borrowing that falls into this area at present.

5.6 The authority can still make voluntary extra provision for MRP in any year.

6. Revised MRP Statement

6.1 The guidance also makes clear that whilst Authorities must always have regard to the guidance; having done so they may in some cases consider that a more individually designed MRP approach is justified. The restructuring to Shropshire Council, with a vestment date of 1st April 2009, at which point the historic debt and capital receipts from the predecessor Authorities transferred can be considered to be one such situation. In this event the Council propose to revise the MRP statement by voluntarily setting aside capital receipts inherited from the predecessor Authorities to reduce the opening CFR and using the opening CFR to calculate a reduced MRP charge in 2009/10, generating a real revenue saving.

6.2 This approach has been approved by DCLG and discussed with our Treasury Advisors and External Auditors.

6.3 The total capital receipts inherited from the previous Authorities as at 1st April 2009 was £26,814,600. These are fully committed to schemes in the capital programme in future financial years, but in order for the Council to benefit from a reduced MRP charge in 2009/10 it is proposed to voluntarily set aside these capital receipts as at 1st April 2009 to reduced the CFR and consequently reduce the MRP charge for 2009/10 by £1,072,500, on the 4% regulatory method.

6.4 As the extent of new borrowing is not subject to any limitation the sum of capital receipts set aside will still be available to support capital expenditure in future years. This will increase the CFR to its previous level and the MRP charge in future years will increase, but not beyond the level had the saving not been generated in 2009/10. Thus the saving in MRP is therefore temporary, albeit very helpful to the short-term financial position.

6.5 Borrowing in 2009/10 will still be within the borrowing limits approved in the Treasury Strategy for 2009/10. The Prudential Indicators will be updated in the 2010/11 Treasury Strategy to be presented to Council in February 2010.

6.6 Since the 2009/10 MRP Statement was approved there have also been other changes to the CFR as a result of reduced unsupported borrowing by NSDC (although this will be required in future years), increased unsupported borrowing by SCC and including SABC's negative CFR of £420,000 as at 31/03/09. These changes have generated a further MRP saving of £40,300, making a total MRP saving of £1,112,800 from the original MRP Statement.

6.7 Appendix 2 provides the revised MRP statement for 2009/10 in comparison to the originally approved MRP statement.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Treasury Strategy 2009/10 – Council 27 February 2009

Human Rights Act Appraisal
The recommendations contained in this report are compatible with the provisions of the Human Rights act 1998

Environmental Appraisal
Impossible to quantify.

Risk Management Appraisal
Compliance with the CIPFA Code of Practice on Treasury Management, MRP regulation, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with comprehensive and rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potentials for financial loss.

Community / Consultations Appraisal
Not applicable.

Cabinet Member
Keith Barrow, Leader of the County Council.
Portfolio holders

Local Member
All

Appendices
1. Options for Prudent Provision
2. MRP statement 2007/08 and 2008/09

Appendix 1: Options for Prudent Provision

Option 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. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

Option 2: CFR Method
MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation.

Option 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.

For the purpose of the above formula in the initial year of making the MRP the variable "C" should be given the maximum values set out in the following table:

Expenditure Type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a direction under s16(2)(b)	"C" equals 20 years
Regulation 25(1)(a) Expenditure on computer programs	"C" equals the value it would have for computer hardware
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the estimated life of the assets in relation to which the third party expenditure is incurred
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years, or the period of the loan, if longer
Regulation 25(1)(d) Acquisition of share or loan capital	"C" equals 20 years
Regulation 25(1)(e)	"C" equals the estimated life of the assets

Expenditure Type	Maximum value of "C" in initial year
Expenditure on works to assets not owned by the authority	
Regulation 25(1)(ea) Expenditure on assets for use by others	"C" equals the estimated life of the assets
Regulation 25(1)(f) Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	"C" equals 25 years

(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.

Option 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.

(a) 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.

(b) 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.

(c) 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.

Appendix 2: Revised Minimum Revenue Provision Statement 2009/10 and comparison to original approved Statement

	Original MRP Statement £	Revised MRP Statement £
Supported Borrowing – Option 1		
General Fund		
Closing CFR 2007/08	235,591,405.53	235,591,405.53
Add SCE (R) 2008/09	20,339,826.00	20,339,826.00
Less capital receipts voluntarily set aside		(26,814,644.00)
Less SABC Closing CFR 31/03/09		(420,000.00)
	255,931,231.53	**228,696,587.53**
Less Adjustment "A"	(2,065,478.00)	(2,065,478.00)
Less LGR (98) Debt	(1,069,531.00)	(1,069,531.00)
	252,796,222.53	**225,561,578.53**
Less MRP 2008/09	(9,537,861.52)	(9,537,861.52)
Add back Adjustment "A"	2,065,478.00	2,065,478.00
Add back LGR (98) Debt	1,069,531.00	1,069,531.00
	246,393,370.01	**219,158,726.01**
District inherited debt:		
OBC – Closing 2008/09 CFR	5,150,570.04	5,150,570.04
NSDC – Closing 2008/09 CFR	678,862.00	678,862.00
	5,829,432.04	**5,829,432.04**
Closing CFR 31/03/09 – Supported Borrowing (GF)	**252,222,802.05**	**224,988,158.05**
Housing Revenue Account		
District inherited debt: OBC – Closing 2008/09 CFR	1,180,619.49	1,180,619.49
Closing CFR 31/03/09 – Supported Borrowing (HRA)	**1,180,619.49**	**1,180,619.49**
Closing CFR 31/03/09 – Supported Borrowing (GF&HRA)	**253,403,421.54**	**226,168,777.54**
Unsupported Supported Borrowing – Option 3		
Unsupported Borrowing brought forward	5,161,632.52	5,161,632.52
Add prudential borrowing 2008/09	0	2,000,000.00
Less MRP – Previous year	(296,326.67)	(296,326.67)
	4,865,305.86	**6,865,305.86**
District inherited debt: NSDC – Closing 2008/09 CFR	1,226,000.00	821,138.00
Closing CFR 31/03/09 – Unsupported Borrowing	**6,091,305.86**	**7,686,443.86**
Closing CFR (GF&HRA) 31/03/09	**259,494,727.40**	**233,855,221.40**

Summary MRP

MRP 2009/10 at 4% of above (Option 1)	9,730,334.44	8,640,948.68
LGR (98) Debt MRP (Option 1)	153,368.00	153,368.00
Unitary inherited – OBC (Option 1)	114,302.85	114,302.85
Prudential Borrowing MRP (Option 3)	296,326.67	296,326.67
Unitary inherited Prudential Borrowing MRP – NSDC (Option 3)	66,480.00	43,035.05
Total MRP 2009/10	**10,360,811.96**	**9,247,981.25**