APPENDIX 15

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT

Background

Local authorities are required each year to set aside some of their revenues as provision for debt repayment. Previous regulations prescribed how much provision to make using a formula which was linked to prudential indicators. The system was simplified under the 2008 Regulations and authorities are now only required to make "prudent provision", based on guidance issued by the Department for Communities and Local Government.

The broad aim of prudent provision is to ensure debt is repaid over a period that is either reasonably equal with that over which the capital expenditure provides benefit, or in the case of borrowing supported by Government Revenue Support Grant reasonably equal with the period implicit in the determination of that grant.

The Government's guidance offers four options for the calculation of the provision:

- Option One - Regulatory method: MRP charges are based on the same formula used in the previous regulations. This method should only be adopted for capital expenditure incurred before 01 April 2008. However, it may also be applied for any new capital expenditure that is deemed to be 'supported' as part of the Revenue Support Grant (RSG) settlement – on the grounds that the MRP charge would be offset by the support included with the RSG.

- Option Two – Capital Financing Requirement (CFR) Method: A simplified version of the option one which removes an adjustment in the original formula, known as Adjustment A, that ensured consistency with previous Capital Regulations. For most authorities this method would probably result in a higher level of provision than option one.

- Options Three – Asset Life Method: The MRP charge is aligned to the estimated life of the asset for which the borrowing is undertaken. This method is suggested for new borrowing for which no Government support is being given (i.e. unsupported borrowing), but can also be used for supported borrowing as well.

- Option Four – Depreciation Method: MRP is matched to the provision for depreciation. The result should be similar to option three.

The guidance suggests that from 2009-10 onwards MRP charges relating to non-government supported borrowing must be calculated using either method three or four.

The legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

Confirmation of Existing Policy

In line with many other authorities, the Council's existing policy adopts for the most part the use of Options 1 and 3, and a continuation of this practise is proposed for 2018-19. The Council is therefore recommended to approve the following arrangements:

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the 'Regulatory Method' (option 1) outlined in CLG guidance on MRP. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

- For all capital expenditure incurred after 1 April 2008 financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance

- With regard to the Option 3 element, a fixed average asset life will be assumed and applied to the global in year unsupported borrowing / spend; rather than breaking this calculation down to spend on individual assets and their respective lives. The assumed life will be based on the historic weighted average life of all assets included in the Option 3 calculation for 2009-10 to 2014-15.

- For capital expenditure in respect of Long Term Capital Debtors, where principal is repaid over the term of the loan (such as the loans to Northumbria Health Authority and the Local Authority Mortgage Scheme etc.), no MRP provision is made but the liability will be met by setting aside the associated receipt of the repayments. MRP will however be calculated for those Long Term Capital Debtors where prinicipal is repaid on maturity and loan term is greater than 5 years (such as the loans to Arch).

- In order to allow increased flexibility to cope with future austerity, whenever resources are available and allow, additional voluntary set aside may also be made. Conversely, any advance provision from previous years may if needed be utilised to reduce the current year's MRP requirement (i.e. that which would otherwise be set aside). The level of each year's voluntary set aside, or reversal, will be delegated to the Section 151 Officer (or the Deputy Section 151 Officer), based on what is considered prudent and affordable for both exitsing resources and future forecasts.

- There is no requirement to provide minimum revenue provision in relation to the Housing Revenue Account.