HEREFORDSHIRE
COUNCIL

Minimum Revenue Provision (MRP) Statement

PORTFOLIO RESPONSIBILITY: RESOURCES

CABINET **29 MAY 2008**

Wards Affected

Countywide.

Purpose

To approve the statutory Minimum Revenue Provision Statement (MRP).

Key Decision

This is not a Key Decision.

Recommendation

THAT the Minimum Revenue Provision Statement for 2008/09 be approved.

Reasons

To comply with the Local Authority (Capital Financing and Accounting) (England) (Amendment) Regulations.

Considerations

1 Local authorities are required each year to set aside some of their revenues as provision for debt repayment, known as the Minimum Revenue Provision (MRP). The changes apply to the financial year 2007/08 and to subsequent years. The new rules have come into effect but the Council was, in effect, already following these requirements.

2 The Secretary of State recommends that an annual statement on MRP is put to the full council, normally before the start of the financial year. For 2007/08 the MRP Statement is to be combined with the 2008/09 Statement and approved as soon as practicable during the financial year 2008/09.

3 The guidance gives four options for prudent provision:

Option 1 - Regulatory
For debt which is supported by the Government through the Revenue Support Grant (RSG), authorities may continue to use the formulae, as RSG is calculated in that way. This includes applying an adjustment (known as the Item A adjustment), that reduces the charge back to the former credit ceiling accounting methodology.

Option 2 – Capital Financing Requirement method

This is similar to option 1, but just uses the CFR and does not apply the full formula, including the Item A adjustment. Under this option the annual repayment would be higher.

Option 3 - Asset Life Method
For new borrowing under the prudential system there are two options in the guidance. The first is to make provision over the estimated life of the asset for which the borrowing is undertaken. This is a simpler alternative to the use of depreciation accounting (Option 4).The Council has already opted to do this on a voluntary basis. This can either be on an equal instalment method or an annuity basis.

Option 4 - Depreciation method
An alternative to Option 3 is to make provision in line with depreciation accounting. Although this would follow standard rules for depreciation accounting there would have to be some exceptions, for example, that MRP would continue until the provision is equal to the original debt and then cease.

4 The MRP policy statement set out in Appendix 1 sets out the recommended policy, which is to formally adopt the MRP methodology that we currently operate, that is, to repay supported borrowing in line with Option 1 and prudential borrowing in line with Option 3.

Risk Management

5 The adaptation of the policy mitigates a risk that would arise around future non-compliance with statutory regulations.

Alternative Options

6 The Council could opt to adopt Option 2 for Supported Borrowing, but this would incur an extra £122,000 per annum.

7 The Council could adopt Option 4 for Prudential Borrowing, although this would be a change in current practice for no perceived benefit.

Consultees

8 None.

Appendices

9 Appendix 1 – MRP Policy Statement.

Background Papers

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

Guidance on Minimum Revenue Provision – issued by the Secretary of State.