APPENDIX 1

HEREFORDSHIRE COUNCIL

STATEMENT ON MINIMUM REVENUE PROVISION 2007/08 AND 2008/09

1. Introduction

Local Authorities are required to charge to their revenue account for each financial year Minimum Revenue Provision (MRP) to account for the cost of their debt in that year. Under the **The Local Authorities (Capital Finance and accounting) (England) (Amendment) Regulations 2003 (the 2003 Regulations)** set out the method council's had to follow in calculating MRP. **The Local Authorities (Capital Finance and accounting) (England) (Amendment) Regulations 2008** replaces these detailed rules for calculating MRP with a requirement to calculate an amount of MRP which they consider to be prudent.

2. Annual MRP Statement

The Secretary of State recommends that before the start of each financial year that a local authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to the full council. The statement for 2007-08 and 2008-09 should be made as soon as practicable during the financial year 2008-09.

3. Options for making 'Prudent Provision'

3.1 There are four options for Prudent Provision set out in the guidance;

Option 1 - Regulatory
For debt which is supported by the Government through Revenue Support Grant (RSG), authorities may continue to use the formulae under the 2003 Regulations, as RSG debt support is calculated in that way. This includes applying an adjustment (the Item A adjustment), which reduces the charge back to the former credit ceiling accounting methodology.

Option 2 - CFR method
This is similar to option 1, but just uses the CFR and doesn't 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 2 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) and the council has already been applying 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.

3.2 MRP normally commences in the year following the one in which expenditure was incurred. However, the guidance allows for an exception to this for options 3 and 4 when a new asset is provided, in which case the MRP would not have to be charged until the asset became operational.

4 MRP Policy 2007-08 and 2008-09

4.1 In line with the guidance produced by the Secretary of Statement the proposed policy for the 2007-08 and 2008-09 calculation of MRP is as follows;

4.2 Borrowing supported through the RSG grant system will be repaid in accordance with the 2003 Regulations.

4.3 Prudential borrowing will be repaid over the life of the asset on an equal instalment basis.