

## Minimum Revenue Provision Policy Statement for 2010/11

### Introduction

1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.
2. Until 2007/08, the basis of the calculation for the MRP was specified in legislation. New legislation (Statutory Instrument 2008 no. 414 s4) which came into force on 31 March 2008, gives local authorities more freedom to determine what is a prudent level of MRP.
3. The new 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.
4. Further guidance has been issued by CLG with regard to International Financial Reporting Standards and MRP. The move to IFRS is expected to bring more PFI schemes on balance sheet and to result in some leases being reclassified as finance leases instead of operating leases. Where this happens, a part of the service charge or rent payable will be taken to reduce the balance sheet liability rather than being charged to revenue accounts. This change would result in a one off increase in the capital financing requirement and an equal increase in revenue account balances. This is not seen as a prudent course of action and the guidance aims to ensure that authorities are in the same position as if this change had not occurred. It does this by recommending inclusion in the annual MRP charge of an amount equal to the amount that has been taken to the balance sheet, including the retrospective element in the first year.

### Options for Prudent Provision

5. Guidance on the legislation sets out a number of options for making 'prudent provision'. Options 1 and 2 relate to Government supported borrowing. Options 3 and 4 relate to new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed. Authorities are able to use any of the four options for MRP. The options are explained below.

#### *Option 1 - Regulatory Method*

6. This is the current method, and for debt supported by Revenue Support Grant (RSG), authorities can choose to continue to use the formula. This is calculated as 4% of the council's general fund capital financing requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

### *Option 2 – Capital Financing Requirement (CFR) Method*

7. Option 2 differs from Option 1 only in that the smoothing factors are removed. This is a simpler calculation; however for most authorities including Oxfordshire, it would result in a higher level of provision than Option 1.

### *Option 3 – Asset Life Method*

8. For new borrowing under the Prudential system, Option 3 is to make provision in equal instalments over the estimated life of the asset for which the borrowing is undertaken or the alternative is the annuity method which has the advantage of linking MRP the flow of benefits from an asset where the benefits are expected to increase in later years. As with the existing scheme of MRP, provision for the debt will normally commence in the financial year following the one in which the expenditure is incurred. There is however one exception to this rule under Option 3. In the case of the construction of a new building or infrastructure, MRP would not have to be charged until the new asset came into service. The MRP 'holiday' would perhaps be two or three years in the case of major projects and could make them more affordable.

### *Option 4 – Depreciation Method*

9. For new borrowing under the Prudential system, Option 4 is to make MRP in accordance with the standard rules for depreciation accounting.

### **MRP Methodology Statement**

10. The policy already in place in the Council is reflected in Options 1 and 3; consequently the statement requiring approval by Council is a confirmation of existing practice and continuation of the policy approved by Council in June 2008. The Council is recommended therefore to approve the following statement:
11. For capital expenditure incurred before 1 April 2008 or which in the future will relate to Supported Capital Expenditure, the MRP policy will be based on existing regulations (Option 1 – Regulatory Method).
12. From 1 April 2008, for all unsupported borrowing, the MRP policy will be based on the estimated life of the assets for which the borrowing is undertaken (Option 3 – Asset Life Method).
13. In the case of finance leases and on-balance sheet Private Finance Initiative (PFI) type contracts, the MRP requirement will be regarded as being met by a charge equal to the element of the rent/charge that goes to write-down the balance sheet liability (Option 3 in modified form).
14. The major proportion of the MRP for 2010/11 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with Option 1 of the guidance. Certain expenditure reflected within the debt

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liability at 31 March 2011 will be subject to MRP under Option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.