Appendix G

Statement of Policy on the Minimum Revenue Provision

1. Introduction

1.1 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.

1.2 Until 2007/08, the basis of calculation for the MRP was specified in legislation. However, the government has now brought forward draft legislation and guidance, which would give local authorities more freedom to determine what would be a prudent level of MRP.

1.3 The draft guidance requires local authorities to draw up a statement of their policy on the MRP, for approval by full council in advance of the year to which it applies. The guidance is expected to come into force in March 2008, to apply from 2008/09 onwards. The government has indicated that it is expecting local authorities to approve an MRP policy in advance of 2008/09, even though the proposed legislation and guidance are still at the draft stage.

2. Details of draft DCLG Guidance on MRP

2.1 The draft guidance issued by DCLG sets out four options for calculating MRP and specifies the circumstances in which each option can or should be used.

2.2 Option 1 is the current method, which 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 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by DCLG to provide a simpler calculation for those councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by councils for whom it would significantly increase MRP. Since for Leeds Option 2 would result in a higher MRP charge than Option 1, it has been discounted.

2.3 Options 3 and 4 represent a more significant change, and both link the rate of MRP charged to the useful life of the asset. Option 3 is to charge the total amount borrowed to revenue in equal annual instalments over the expected life of the asset, and Option 4 is to charge the total amount borrowed in accordance with depreciation accounting, which would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year. Option 3 is preferred to Option 4, because in most cases Option 4 would lead to MRP being charged more quickly, and it would also be more volatile.

2.4 For capital schemes acquiring new assets which take more than one year to complete, application of Options 3 and 4 would allow councils to delay charging MRP until the year after the new asset becomes operational.

2.5 Under the new guidance, it will be compulsory for local authorities to use Options 3 or 4 for all prudential borrowing, and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities will be able to use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

2.6 The new arrangements must be applied to 2008/09 capital spending (i.e. affecting the 2009/10 MRP), but authorities have the option of applying them to 2007/08 capital spending (i.e. affecting the 2008/09 MRP). For all capital spending from 2006/07 and earlier, the existing MRP calculation will continue to apply.

3. Proposed 2008/09 MRP Policy

3.1 In its 2008/09 MRP policy, the council is required to decide on how MRP will be calculated for borrowing undertaken for the 2007/08 capital programme. Assuming that the final published MRP guidance does not differ significantly from the draft version, it is proposed that Leeds adopts the following MRP policies for 2008/09 :

- MRP for prudential borrowing for 2007/08's capital expenditure will be calculated on the basis of equal instalments over the expected useful life of the asset (Option 3).

- MRP for borrowing to fund capitalised expenditure will continue to be calculated on the current basis (Option 1) for 2007/08's capital expenditure.

- For all other borrowing to fund the 2007/08 capital programme, MRP will continue to be calculated on the current basis (Option 1).

3.2 These policies will ensure that the council satisfies the requirement to set aside a prudent level of MRP. In order to ensure that the level of MRP is not excessive, it will be necessary to allocate funding to individual capital schemes on a suitable basis, as outlined in 4.2 below.

3.3 If the final published MRP guidance differs significantly from the draft guidance to such an extent that the above policy is no longer appropriate, a revised MRP policy for 2008/09 will be brought to full council for approval.

4. Implications of the proposed policy

4.1 One of the implications of the changes to MRP is that it will be necessary to identify which individual schemes have been funded by borrowing and which have been funded by non-specific capital income (e.g. capital receipts), rather than treating the balance of the capital funding requirement after specific capital funding has been applied as being met from a general receipts and borrowing pool.

4.2 It is within the delegated responsibilities of the Director of Resources to determine the most appropriate allocation of capital funding to the capital programme. From 2007/08 onwards, the general principle adopted will be to allocate capital receipts and any other general capital income firstly to those capital schemes which relate to the shortest lived assets. This approach will mean that some schemes which would previously have been funded by prudential borrowing will instead be funded by capital receipts, and as a result other schemes which would previously have been funded by supported borrowing will be funded by prudential borrowing. This is considered to be the most prudent approach, as it will ensure that assets which may be used for example for only 5 years will be paid for immediately, and assets which are expected to be used for more than 25 years will be funded by long term borrowing and paid for by council tax payers over a longer period of time. However, there may be specific circumstances in which this general approach may not be deemed to be appropriate.

5. Impact on 2008/09 Revenue Budget

5.1 It is estimated that, once the funding of the 2007/08 capital programme has been realigned in accordance with the above principles, the MRP chargable to revenue in 2008/09 will be reduced as a result of adopting the changes for prudential borrowing a year earlier than is required. This has been taken into account in setting the 2008/09 revenue budget.