

Statement of Policy on the Minimum Revenue Provision for 2010/11

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 amended legislation and issued statutory guidance, which gives local authorities more freedom to determine what would be a prudent level of MRP.
- 1.3 The statutory 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.

2. Details of DCLG Guidance on MRP

- 2.1 The statutory guidance issued by DCLG sets out four options for calculating MRP and specifies the circumstances in which option each 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included by DCLG to provide a simpler calculation for those councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by councils for whom it would significantly increase MRP.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 over the expected life of the asset, either in equal annual instalments or using an annuity method (which more closely reflects the fact that an asset deteriorates slowly at first and more rapidly during its later years). 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 statutory guidance, it is 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 may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

- 2.6 MRP on capital spending incurred in years from 2007/08 onwards will be charged on the basis approved in the relevant annual MRP policy. For all capital spending from 2006/07 and earlier, the previous MRP calculation of 4% will continue to apply.

3. Proposed 2010/11 MRP Policy

- 3.1 In its 2010/11 MRP policy, the council is required to decide on how MRP will be calculated for borrowing undertaken for the 2009/10 capital programme. It is proposed that Leeds adopts the following MRP policies for 2010/11 :

- MRP for prudential borrowing for 2009/10's capital expenditure will be calculated on an annuity basis over the expected useful life of the asset (Option 3).
- MRP for borrowing to fund capitalised expenditure incurred during 2009/10 will be calculated on an annuity basis using the lifetimes recommended in the government's guidance (Option 3).
- For all other supported borrowing to fund the 2009/10 capital programme, MRP will continue to be calculated on an annuity basis over the expected useful life of the asset (Option 3).

- 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.

4. Implications of the proposed policy

- 4.1 One of the implications of the changes to MRP is that it is now 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 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.