

By: Nick Chard – Cabinet Member - Finance  
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To: Cabinet – 2 February 2009

Subject: Annual Minimum Revenue Provision (MRP) Statement  
2007/08 and 2008/09

Classification: Unrestricted

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Summary: This report asks Members to approve the changes in the policy for calculating the annual Minimum Revenue Provision for 2007/08 and 2008/09.

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## **1. Background**

- 1.1 In 2007/08 the capital regulations in relation to MRP were amended. In the new regulation 28, the detailed rules for making a provision are replaced with a duty for the authority to make an amount of MRP which it considers “prudent”. The regulations do not actually define what “prudent” is, but make recommendations as to the interpretation of the term. The changes apply to capital expenditure from 2006/07 onwards with relative MRP being made in the year following the expenditure. Consequently, this statement refers to 2007/08 and 2008/09.
- 1.2 Authorities are asked to submit a statement on their policy of making MRP to full council or similar. Any revision to the original statement must also be issued.

## **2. New Policy**

- 2.1 The 2007/08 MRP and 2008/09 MRP which is based on capital expenditure incurred in 2006/07 and 2007/08 respectively are based on 4% of our capital financing requirement which is consistent with previous years. 2008/09 is the last year that we are able to do this. For 2009/10 and the Medium Term Plan we have adopted the asset life method which is a method recommended in the new guidance. This method provides authorities with the option of applying MRP over the life of the asset once it is in operation, so for assets that are not yet operational and still under construction we effectively have an “MRP holiday”.
- 2.2 In order to establish MRP for the MTP we have based the asset life principle on all capital expenditure funded by both supported and prudential borrowing in 2007/08. This has resulted in the following

projected MRP percentages on 2007/08 capital expenditure of £101m with assumptions on completion dates:

2009/10	2010/11	2011/12	2012/13	2013/14
1.5%	4.3%	4.3%	4.9%	4.9%

- 2.3 In addition to this will be MRP at 4% on our capital financing requirement less capital expenditure in 2008/09 and subsequent years, i.e. this will be 4% on our requirement relating to expenditure prior to 2008/09. This will be on a reducing balance as each year additional capital spend will be deducted from the recalculated capital financing requirement.
- 2.4 Each year the percentages will change and MRP for the MTP will be calculated on the previous year's capital expenditure and will depend on the type of asset the spend is on, its life and whether it is completed or not.
- 2.5 Each year a new MRP statement will be presented.

### **3. Financial Implications in 2009-12 MTP**

- 3.1 The financial implications of this change affect 2009/10 onwards, with the 1.5% i.e. 2.5% reduction in MRP as part of the "MRP holiday", being recognised in 2009/10, with a reduced saving in 2010/11 and 2011/12, due to MRP rising to 4.3%.  
Please see the table below:

<b>Years</b>	2009/10 £'000	2010/11 £'000	2011/12 £'000
<b>Saving</b>	-2,820	-960	-400

### **4. Recommendation**

- 4.1 Members are asked to approve this statement and changes in the policy to calculate MRP, in light of the change in regulations.

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Background documents - None

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