

**Report of the Chief Executive to the Chair and Members
of the Police Authority Executive
25th February 2010**

Executive & Presenting Officer: Mr Joe McCarthy, Chief Executive

Status: For Decision

Minimum Revenue Provision 2010/11

1. Purpose

- 1.1 This report is one of a set of six that are on today's agenda for consideration by Members:
- Robustness of Estimates & Adequacy of Financial Reserves
 - Prudential Indicators & Treasury Management Strategy 2010/14
 - 2010/11 Budget Long Term Financial Plan 2011/15
 - 2010/11 Capital Programme & Outline Capital Plan 2011/14
 - Setting the 2010/11 Precept
 - Minimum Revenue Provision Strategy 2010/11
- 1.2 Minimum Revenue Provision (MRP) is the annual revenue provision that authorities have to make in respect of their debts and credit liabilities. The requirement to make MRP has existed since 1990.
- 1.3 Due to changes to the Local Authorities (Capital Financing and Accounting) (Amendment) (England) Regulations on calculation of the MRP, a report is now necessary to seek approval from the Authority as to the annual MRP strategy for the 2010/11 financial year.
- 1.4 The MRP Strategy complements the wider financial picture which aims to provide transparency on the cost to the Authority of taking on new borrowing, therefore linking into the Authority's prudential indicators, the overall management of the Authority's assets and the move towards international accounting standards.

2. Recommendations

- 2.1 Members are asked to approve the MRP Strategy for 2010/11. Specifically that being:
 - Option 1 (“Regulatory Method”) be used to calculate the MRP on existing borrowing (before the 1st April 2008) and any future supported borrowing (after 1st April 2008).
 - Option 4 (“Depreciation Method”) be used to calculate the MRP in the case of any future unsupported borrowing (after the 1st April 2008).
- 2.2 Members are asked to approve that all future reports which involve borrowing to support capital expenditure considered by the Authority contain an assessment of additional MRP costs as this will have an impact on future revenue budgets.
- 2.3 That the MRP Strategy be presented to the Authority on an annual basis and its recommendations adopted for the following financial year in line with the requirements of the 2007 Regulations.

3 Reasons

- 3.1 Minimum Revenue Provision is the annual revenue provision that authorities, which are not debt free, have to make in respect of their debts and credit liabilities. MRP aims to provide transparency as to the cost to the Authority of taking on new borrowing. The requirement to make MRP has existed since 1990.
- 3.2 Under the Local Authorities (Capital Financing and Accounting) (Amendment) (England) Regulations 2007, the current arrangements for calculating the MRP as specified in the 2003 Regulations have been superseded. The 2007 Regulations now place a general duty on local authorities to make a Minimum Revenue Provision which is considered to be prudent, with the responsibility being placed upon the Authority to approve an Annual MRP Strategy each year.
- 3.3 The 2007 Regulations require that an Annual MRP Strategy be adopted by the Authority prior to the start of the coming financial year. The regulations were finalised at the end of February 2008. The Authority can change the method of calculating MRP on an annual basis (subject to the constraints set out below). Once a method has been approved for a particular year, any assets purchased through borrowing that year must continue to have MRP charged in the same way (that is, the Authority can not change the method of calculating MRP on individual assets).

3.4 Options Available

Four options are outlined within the 2007 Regulations for authority's to follow as to the calculation of MRP, however there are certain factors which predetermine the option the Authority must adhere to, depending on the timing of the borrowing (that is before or after the 1st April 2008) and whether the borrowing is supported or unsupported:

3.4.1 Option 1 ("Regulatory Method") and Option 2 ("Capital Financing Requirement (CFR) Method") can only be used to calculate the MRP in the following circumstances:

- Existing borrowing against capital expenditure that was incurred before the 1st April 2008 (regardless of whether the borrowing was supported or unsupported).
- Supported borrowing incurred after the 1st April 2008.

3.4.2 Option 3 ("Asset Life Method") and Option 4 ("Depreciation Method") can only be used to calculate the MRP for new schemes that require the Authority to take on unsupported borrowing after the 1st April 2008.

Appendix 1 provides a glossary of some of the terms used in the paper and calculations. Appendix 2 shows how the MRP figure is calculated under each of the options discussed above.

3.4.3 To minimise the impact on revenue Members are asked to approve:

- Option 1 ("Regulatory Method") be used to calculate the MRP on existing borrowing (before the 1st April 2008) and any future supported borrowing (after 1st April 2008)
- Option 4 ("Depreciation Method") be used to calculate the MRP in the case of any future unsupported borrowing (after the 1st April 2008)

4 Implications

4.1 Finance

The financial implications of this Strategy are factored into the Long Term Financial Plan.

4.2 Diversity & Equal Opportunities

There are no diversity or equal opportunity implications arising from this report.

4.3 Sustainability

The MRP Strategy aims to provide transparency as to the cost to the Authority of taking on new borrowing and links with the Prudential Indicators to determine the sustainability and affordability of all unsupported borrowing undertaken.

4.4 Risk

Insufficient MRP provided for in the Authority's budget. Any new borrowing that the Authority takes out will incur a MRP charge in the revenue budget which will specifically relate to the asset acquired or enhanced. This 'charge' will need to be built into the revenue budget to ensure the Authority has sufficient resources available to meet the liability. This risk will be managed as follows:

- All new capital schemes require a report being submitted to the Authority for approval. By including an assessment of MRP (as per the recommendation within this report) there will be an early indication as to any future MRP liability which can be built into the budget accordingly.

Joe McCarthy
Chief Executive

Glossary of Terms

Adjustment A – Technical accounting adjustment set out in regulations to ensure consistency with previous Capital Regulations

Capital Financing Requirement (CFR) – Amount needed to finance the Authority's Capital Programme from previous years (borrowing) and current year (capital receipts, grants etc.)

Prudential Indicators – In order to assess the Authority's ability to afford borrowing when making capital financing decisions and to ensure that prudent levels are set. These indicators show the projected and actual position together with limits which can only be exceeded with approval and in exceptional circumstances

Supported Borrowing – Borrowing for which the Government will provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects

Unsupported (Prudential) Borrowing – Borrowing under the Prudential Code for which the Government will not provide support through the Revenue Support Grant to meet the cost of borrowing for capital projects.

Supported Borrowing (after 1st April 2008) and any Previous Borrowings

Option 1 (“Regulatory Method”) – This is the method currently used by the Authority, as set out in the 2003 Regulations. Option 1 is calculated as 4% of the total Capital Financing Requirement for all borrowing, less Adjustment A:

$$4\% (CFR - AA)$$

Where:

- CFR = Capital Financing Requirement
- AA = Adjustment A

Option 2 (“Capital Financing Requirement (CFR) Method”) – this uses the same formula as Option 1 but does not take account of Adjustment A.

$$4\% (CFR)$$

Where:

- CFR = Capital Financing Requirement

Once calculated Adjustment A remains a fixed variable within the calculation; in the case of Cleveland Police Authority Adjustment A is £1,997,000 meaning that the MRP calculated under Option 1 will always be £79,880 (4% of £1,997,000) less compared to Option 2.

The following demonstrates the different MRP calculated under Option 1 and Option 2 based on the Authority’s Capital Financing Requirement for 2007/08:

Total Capital Financing Requirement for 2007/08 is £16,471,000
Adjustment A is £1,997,000

MRP	Option 1	Option 2
2007/08	£579,000	£659,000

Unsupported Borrowing (after 1st April 2008)

Option 3 (“Asset Life Method”) – The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset

Option 4 (“Depreciation Method”) - The MRP for each asset acquired through unsupported borrowing is calculated using the following formulae:

$$\frac{A - B - D}{C}$$

Where:

- A = Capital expenditure (unsupported borrowing) on asset
- B = Total MRP already made against the asset
- C = Remaining useful life of the asset
- D = Residual Value of the Asset

The only difference between the two methods of calculating the MRP is that there is recognition in option 4 that the asset will still be worth ‘something’ after its useful life has expired.

The following example demonstrates the different MRP calculated under each of the above options:

Assumptions:

- A vehicle is purchased (through unsupported borrowing) for £100,000 (A)
- The useful life of the vehicle is 5 years (C)
- The residual value of the asset after 5 years is £20,000 (D)

MRP	Option 3	Option 4
Year 1	20,000	16,000
Year 2	20,000	16,000
Year 3	20,000	16,000
Year 4	20,000	16,000
Year 5	20,000	16,000
Total MRP after 5 years	100,000	80,000

In the above example, Option 4 incurs less MRP expenditure which needs to be met from revenue resources in each financial year and during the life of the asset as a whole.