ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT

BACKGROUND

1. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. Previous regulations prescribed how much provision to make using a formula which was linked to prudential indicators. The system was simplified under the 2008 Regulations and authorities are now only required to make "prudent provision", based on guidance issued by the Department for Communities and Local Government.

2. The guidance offers four options for the calculation of the provision:

   - Option One - Regulatory method: MRP charges are based on the same formula used in the previous regulations. This method should only be adopted for capital expenditure incurred before 01 April 2008. However, it may also be applied for any new capital expenditure that is deemed to be 'supported' as part of the Revenue Support Grant (RSG) settlement – on the grounds that the MRP charge would be offset by the support included with the RSG.

   - Option Two – Capital Financing Requirement (CFR) Method: A simplified version of the option one which removes an adjustment in the original formula, known as Adjustment A, that ensured consistency with previous Capital Regulations. For most authorities this method would probably result in a higher level of provision than option one.

   - Options Three – Asset Life Method: The MRP charge is aligned to the estimated life of the asset for which the borrowing is undertaken. This method is suggested for new borrowing for which no Government support is being given (i.e. unsupported borrowing), but can also be used for supported borrowing as well.

   - Option Four – Depreciation Method: MRP is matched to the provision for depreciation. The result should be similar to option three.

3. The guidance dictates that from 2009/10 onwards MRP charges relating to non-government supported borrowing must be calculated using either method three or four.

4. The option is then whether to apply the same asset life method to supported borrowing or remain with the current regulatory method.

5. To apply the asset life method to all borrowing allows the methods to be consistent, and the link between the length of borrowing and the life of an asset has a simple logical appeal. Depreciation is not currently a real cost to Local Government and this approach starts to address that. In addition to this it would remove the incentive to finance all long life projects from unsupported means and all short lived assets from supported means, which would be questionable under the overruling prudence principle. Historically Northumberland has an asset base with a relatively long average life and therefore the asset life method produces a potentially lower MRP provision. However under IFRS there is a movement towards component accounting

which will likely reduce the average life span of the asset portfolio and potentially increase the provision.

6. Consideration also needs to be given to the overhead cost of the policies. The asset life method would require additional resources both to maintain the records for up to 40 years as well as having increased requirements from Asset Management in being able to undertake and provide additional valuations and asset life calculations. Applying this method to all borrowing will significantly increase these requirements.

7. Considering the above it is recommended that the 2014/15 MRP charge be calculated by applying method one, the regulatory method to supported borrowing and method three, the asset life method to unsupported borrowing.

8. The additional pressures on staffing, as a result of the high level of savings that Council needs to achieve, mean that the implementation of a new policy for all borrowing is not a practical priority for the forthcoming year.

9. In addition it is recommended that in respect of Long Term Capital Debtors, where principal is repaid over the term of the loan, which include the Local Authority Mortgage Scheme, no MRP provision is made but the liability would be met by setting aside the associated receipt of the repayments.

10. There is no requirement to provide minimum revenue provision in relation to the Housing Revenue Account as should the council wish to repay the initial borrowing it would do so by selling some of its housing stock which had in effect been funded from the General fund rather than the HRA.