Statement of Policy on making a Minimum Revenue Provision for 2009/10 in relation to capital expenditure financed by borrowing or credit arrangements.

Purpose

1. In March 2008 the Secretary for State for Communities issued statutory guidance recommending that each local authority should prepare a statement of policy setting out how it will make a prudent Minimum Revenue Provision (MRP) for the next financial year, and submit that statement of policy to Full Council.

2. Government wishes to ensure that elected members have the opportunity to scrutinise the ways in which officers propose to ensure that a prudent provision is made.

Explanation of Minimum Revenue Provision

3. Authorities borrow to fund capital spend. A capital item should last many years, and benefit taxpayers over that period of years. Borrowing enables the costs of long-lasting items to be spread over the useful life of the item. This is standard accounting practice in all sectors.

4. There are two types of costs of borrowing: first, the costs of interest payments, and second, the costs of actually repaying the debt, or principal.

5. The Minimum Revenue Provision on the general fund is the amount shown in the accounts for debt repayment, that hits the bottom line, and so is part of the Council Tax calculations.

6. In the private sector, the focus is on depreciation – measuring how much of the value of an asset has been used in a year. This has not historically been the case in Councils, due to past regulation, and if full depreciation was included in the Council Tax calculations, it would add very significantly to costs. It should also be noted that no minimum revenue provision is required for the Housing Revenue Account. If one was made it would impact on the housing rent calculation.

7. The basic Minimum Revenue Provision calculation is based on a charge of 4% of the amount outstanding each year, so assumes that the cost of a capital asset can reasonably be spread over many years. If the useful life of an asset is likely to be much shorter, as in the case of a vehicle, or IT equipment, a different method is needed to ensure that future generations are not left with the cost of paying for former assets that give them no value. Before the introduction of the statutory guidance, Luton addressed this by making an additional voluntary revenue provision, to ensure charges matched the expected useful life of the assets concerned. The statutory guidance has introduced an option called the ‘asset life method’, with similar effect, to determine the MRP for such assets.

Policy

8. In accordance with suggestions in the statutory guidance, a variety of approaches will be used for the differing types of capital expenditure.

9. For some capital spend, known as supported capital expenditure, the Government includes an element within the Council's formula grant to help pay off the debt each year. For all new supported borrowing, the Council will use the Regulatory Method, as set out in option 1 of the statutory guidance.

10. For capital expenditure prior to 31 March 2007, the Council will also use the Regulatory Method, except where a voluntary revenue provision was made previously, due to the asset's expected life being of a short duration. In such cases, the voluntary revenue provision will be continued until adequate provision has been made.

11. For the avoidance of doubt, it is noted that the regulatory method will also be used for any capital spend and debt transferred to Luton in relation to past spend by Bedfordshire County Council on Luton-related assets.

12. Prior to the guidance being issued, Councils were legally required to use the regulatory method, so using this simply means making provision in the same way that the Government required local authorities to do for many years. Within this method, the Council will take advantage of the ability to make the commutation adjustment for the current year, as this is in the Council's favour (that is, by reducing the amount that would otherwise have to be charged in the year to the taxpayer). The commutation adjustment relates to old house renovation debt, and was introduced by Government when the method for accounting for that debt was changed many years ago. As stated in the guidance, the calculations of the amount chargeable under this method will also take into account the 'Adjustment A' factor set in 2004/05 (this adjustment was created by Government in 2004 to ensure that the move from the previous system to the Prudential Code introduced at that time did not result in any increased liability that could impact on council tax payers).

13. For existing and new borrowing after 31 March 2007 which is not supported by Government, the Council will use the 'Equal Instalment' method of the 'Asset Life Method', option 3a in the statutory guidance. This means that an estimate will be made of the life of the asset, and the Council will then write off the debt in equal instalments over each year of the expected life.

14. Freehold land without a structure on it will be written off over 50 years, in accordance with the guidance. Land with a structure on it will be written off over the same period as the expected life of the structure.

15. For a regeneration-type asset which can genuinely be expected to provide significantly greater benefits in later years than in earlier ones, the Council will consider using the annuity option of the asset life method, in an attempt to match costs with benefits, subject to clear guidance being issued by CIPFA as to how this should be done.

16. In the case of major new assets with an extended construction period, the Council will only begin requiring an MRP to be made in the year following the asset being brought into use. This is in accordance with paragraph 13 of the statutory guidance, which describes this option as an 'MRP holiday'.

17. For any finance leases, and, in future, any on-balance sheet public finance initiative (PFI) schemes, the charge required in accordance with proper practices will also cover the MRP.

18. Should the Council apply for, receive, and use any capitalisation directions in the year, the asset life method (as set out in paragraph 13 above) will be used, with the asset life determined in accordance with the maximum value shown in the table set out in paragraph 24 of the statutory guidance.

19. The Council can make an additional voluntary provision to repay debt where it appears financially appropriate to do so, and is in accordance with regulation.