

REPORT TITLE

MINIMUM REVENUE PROVISION 2011/12

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO**DATE**

AUTHORITY MEETING

5 APRIL 2011

1. SUMMARY OF REPORT

The Authority is required to approve annually a statement of its policy on making its Minimum Revenue Provision (MRP). This should have been approved at the same time as agreeing the 2011/12 budget at the February Authority meeting but was omitted in error. This report provides a draft statement for approval.

2. RECOMMENDATION

The Authority is requested to approve the MRP statement for 2011/12 as follows:-

For debt that has arisen through unsupported borrowing the Authority will calculate its Minimum Revenue Provision in equal instalments over the estimated asset life.

Signed by the Financial Adviser:



Date:

25 March 2011

3. Introduction

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2008, local authorities are required to charge to their revenue account each year a Minimum Revenue Provision to account for the cost of their debt in that financial year. Although authorities now have more flexibility in how they calculate their MRP the scope is more limited for the NLWA. This is because none of the Authority's borrowing is supported by the Government through the Formula Grant system and is instead exercised under the Prudential Code. The Authority agreed the basis for calculating the Minimum Revenue Provision at its February 2010 budget and levy setting meeting but this was not reaffirmed in February 2011. This was an omission. Statutory guidance issued by the Secretary of State requires all authorities to prepare an annual statement for approval.

4. The purpose of the Minimum Revenue Provision

The MRP is an amount that authorities which have financed capital expenditure by borrowing must set aside each year in their revenue account to ensure that they can repay the sum borrowed when it falls due. The cumulative provision must be built up over a period bearing some relation to that over which the asset continues to provide a service.

5 MRP Policy for the NLWA

The statutory guidance provides four options that are likely to be relevant for most local authorities but for authorities such as the NLWA which do not receive Formula Grant support for borrowings only two of the options are normally used:

- The Asset Life Method. Provision is made over the estimated life of the asset for which the borrowing is undertaken. The guidance provides two ways of doing this – the equal instalment method which allows the use of a simple formula or the annuity method in which the MRP is the principal element for the year of the annuity required to repay the sum borrowed.
- The Depreciation Method. This is similar to the Asset Life Method but in this option the MRP is equal to the depreciation provision required under standard accounting rules.

6. The Authority's MRP

The Authority's approved 2011/12 revenue budget includes MRP as follows:

2010/11	£4.884m
2011/12	£4.886m

This reflects the prudential borrowing undertaken to finance the acquisition of the shares in LondonWaste Ltd and an estimate of the borrowing required for the purchase of land at Pinkham Way. Borrowing to fund future asset acquisitions will require additional annual provision.

7. Conclusion

Although the statutory guidance provides the Authority with two options for calculating its MRP, assets such as shares and land are not subject to depreciation meaning that the Depreciation Method is not a suitable approach. It is recommended therefore that the Authority adopts the Asset Life Method using equal instalments for calculating its 2011/12 MRP. This would also be a continuation of the current practice approved in February 2010.

6. Comments of the Legal Adviser

The Legal Adviser has been consulted on this report and has no legal comments to add.

Local Government Act 1972 - Section 100 as amended

Documents used in the preparation of this report:

None

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