

Annual Minimum Revenue Provision (MRP) Statement

Recommendation

The recommended Annual MRP statement for Hammersmith and Fulham is:

- For debt which is supported by Revenue Support Grant this authority will calculate the Minimum Revenue Provision in accordance with current regulations (namely 4% of the Capital Financing Requirement net of Adjustment A)
- For debt which has arisen through prudential borrowing it shall be written down in equal instalments over the estimated asset life. The debt write-off will commence the year after an asset comes into use.

Background

Each year local authorities are required to set aside some of their revenues as provision for debt repayment. This is commonly termed the minimum revenue provision (MRP).

Local authorities are required to approve an annual MRP Statement.

This Appendix sets out:

- The options.
- A recommended annual MRP Statement for this authority.

The Options

Councils can opt for 4 options regarding the MRP calculation.

Option 1

This provides for local authorities to calculate MRP in line with the minimum statutory charge. This is 4% of their opening Capital Financing Requirement, net of Adjustment A and the Commutation adjustment. As set out in Table 1 this would provide for an LBHF charge of £3.358m in 2011/12.

	£'000
Opening 2010/11 Capital Financing Requirement (CFR)	127,120
Less Adjustment A	(43,179)
Adjusted CFR	83,941
Minimum Gross MRP (at 4%)	3,358

The statutory minimum is not considered appropriate for this authority. LBHF has been concerned to ensure that all prudential borrowing is sustainable and that debt is actively managed downwards. As such it has decided to write

down all prudential borrowing over the asset life. This should ensure that budget provision is available to fund asset replacement and that overall borrowing levels are affordable.

Option 2

This provides for authorities to calculate MRP prior to Adjustment A.

This is not considered appropriate. Given the scale of Adjustment A for LBHF it would increase the level of MRP by £1.727m. This is not affordable. It is also disproportionate given that our actual borrowing is below the CFR net of Adjustment A. It represents an over provision.

Option 3

This provides for separate treatment for supported and unsupported (prudential) borrowing.

For supported borrowing MRP would be calculated as at present (4% on the CFR net of Adjustment A).

For unsupported borrowing the debt would be written down over the asset life.

This option is current LBHF practice. It should be noted that for this Council:

- The debt write off would start the year after an asset comes into use. This would provide transitional relief as schemes are brought on stream.
- The level of unsupported borrowing is excluded from the 4% CFR calculation. This is logical because you are otherwise, in the short-term, writing down debt 'twice' (at both 4% and over the asset life).

Under this option authorities need to carefully consider the type of assets they fund through prudential borrowing. For example, in the short-term, it could be financially advantageous to fund schemes that have a long asset life, rather than a short-life, through prudential borrowing. This would reduce the MRP charge. Whilst this is a consideration, and will be borne in mind, it is unlikely to be an attractive option for LBHF. This authority only undertakes prudential borrowing when it is considered affordable and is supported by a business case. For example if IT equipment is purchased through prudential borrowing it is more sustainable for the debt to be repaid over the asset life. This ensures that revenue capacity is retained for its replacement. It also requires Departments to properly cost out their business case.

The total estimated MRP charge for this option is £3.407m which is £0.049m greater than option 1.

Option 4

This is similar to Option 3. It provides for separate treatment for supported and unsupported (prudential borrowing).

The difference is that it provides for schemes that have been financed from unsupported borrowing to be written down by an amount equivalent to the amount of depreciation provision arrived at under standard accounting rules.

This would be technically more difficult for the Council to introduce and would require a change in existing practice. There could also be future complications regarding asset revaluations that could result in significant increases in debt repayment levels.

Option 4 is not considered as attractive as option 3.

Conclusion

Option 3 is current practice and it is recommended that this continue.