NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

MINIMUM REVENUE PROVISION POLICY 2007/08 AND 2008/09

Report of the Treasurer to the Fire and Rescue Authority

Agenda Item No:

Date: 27 June 2008

Purpose of Report:

To inform Members of changes to the regulations governing the amount of revenue provision in respect of capital financing and to present to Members a Minimum Revenue Provision policy for 2008/09 and retrospectively for 2007/08.

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1. BACKGROUND

1.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. These regulations are an amendment to the 2003 regulations and introduce several changes to the capital finance regime for local authorities (including fire authorities) in England. The most significant of these are new provisions dealing with the calculation of minimum revenue provision (MRP), which is the amount an authority charges to its revenue account in respect of the financing of capital expenditure.

1.2 Local authorities were consulted on the changes and this Authority submitted a response to the consultation. The changes to MRP proposed in the consultation were generally welcomed as they offered both a more prudent approach coupled with some flexibility.

2. REPORT

2.1 Under the new regulations, an authority is required to make an amount of MRP which it considers to be prudent. “Prudent provision” is not defined in the regulations, but MRP guidance is given on the interpretation of this. Authorities will be legally obliged to have regard to this guidance.

“Provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.”

The regulations refer to “borrowing and credit arrangements” so capital expenditure financed by way of finance leases is also covered by these arrangements.

2.2 What this means in effect is that the amounts charged to the revenue account in respect of borrowing (MRP) must bear some relationship to the lives of the assets for which the borrowing was carried out.

2.3 Importantly however the relationship between actual borrowing and the lives of individual assets do not have to mirror each other. If this was the case then the Authority would need to take out a separate loan for each class of asset being financed. This is simply a means of ensuring that there a correct charge made to the Revenue Account.

2.4 Authorities have to prepare an annual statement of their policy on MRP for submission to the full Council (Fire and Rescue Authority). In future years, this statement must be submitted before the start of the financial year, but in this first year the statement must be submitted as soon as is practicable after the start of the financial year and must cover the years 2007/08 and 2008/09.

2.5 The guidance on prudent provision lists four options for calculating MRP (one of which has two variations). Authorities may choose to use an alternative method to the four, but would have to demonstrate that the method is prudent.

2.6 The choice of methods allowed is dependent upon the year in which capital expenditure is incurred and whether or not the capital expenditure is financed by government supported borrowing (included in the Revenue Support Grant settlement).

2.7 After consideration of the options, the following policy on MRP is recommended to Members:

- For all borrowing and credit arrangements to fund capital expenditure incurred during or before 2006/07, the minimum revenue provision applied in 2007/08 will be calculated on the basis of the 4% CFR (Capital Financing Requirement) method. This method will continue to be used in future years for capital expenditure incurred on or before 31 March 2007.

- For all borrowing and credit arrangements to fund capital expenditure incurred in 2007/08, the minimum revenue provision applied in 2008/09 will be calculated on the basis of the Asset Life method.

2.8 The reason that these options have been selected is because for 2007/08, the existing CFR method will provide consistency with the amount of MRP budgeted for in 2007/08 and therefore the expected impact on the Authority's General Fund. Beyond 2007/8 an option to treat debt supported by RSG differently from other debt is available, but it is considered that this offers no consistency in terms of what is trying to be achieved by the regulations. The asset life method has been selected because it effectively charges the financing costs of assets over the lives of those assets in equal instalments each year. This is considered to be both prudent and fair.

3. FINANCIAL IMPLICATIONS

3.1 The previous regulations resulted in a 4% MRP charge on a reducing balance basis. This effectively meant that financing costs of assets were charged to the General Fund over a very long period. With the new regulations, financing costs are now matched to asset lives and for some assets the periods are relatively short (eg: fire appliances have an estimated life of 12 years). This generally results in a higher MRP charge under the new regulations (eg: in 2009/10 MRP calculated on the previous basis was estimated at £804k and on the new basis at £890k). However this is judged to be both prudent (as defined by the regulations) and fair, as Council Tax payers who benefit from the use of assets will also be contributing to the costs of financing those assets over the same period.

3.2 The draft regulations were published in November 2007 and were taken account of when preparing the medium term budget for 2008/09 to 2010/11.

The final regulations are substantially the same as the draft so the estimated impact of the changes has been budgeted for.

3.3 The Statement of Accounts for 2007/08 is presented elsewhere on this agenda and includes an MRP charge based on the CFR method as outlined above.

4. PERSONNEL IMPLICATIONS

There are no personnel implications arising directly from this report.

5. EQUALITY IMPACT ASSESSMENT

An initial equality impact assessment is shown at Appendix A

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising directly from this report.

7. RISK MANAGEMENT IMPLICATIONS

Compliance with the regulations removes the risk of error in the Authority's financial statements.

8. RECOMMENDATIONS

8.1 Members are requested to approve the adoption of the following Minimum Revenue Provision Policy for 2007/08 and 2008/09:

8.1.1 For all borrowing and credit arrangements to fund capital expenditure incurred during or before 2006/07, the minimum revenue provision applied in 2007/08 will be calculated on the basis of the 4% CFR method. This method will continue to be used in future years for capital expenditure incurred on or before 31 March 2007.

8.1.2 For all borrowing and credit arrangements to fund capital expenditure incurred in 2007/08, the minimum revenue provision applied in 2008/09 will be calculated on the basis of the Asset Life method.

9. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

PETER HURFORD
TREASURER TO THE FIRE AND RESCUE AUTHORITY

Appendix A

INITIAL EQUALITY IMPACT ASSESSMENT

Section **FINANCE**	***Manager*** **SUE CORNISH**	Date of Assessment **MAY 2008**	New or Existing **N/A**
Name of Report to be assessed		Minimum Revenue Provision Policy 2007/08 and 2008/09	
1. Briefly describe the aims, objectives and purpose of the report.		To inform Members of changes to the regulations regarding the calculation of minimum revenue provision in the Authority's accounts and to request Members' approval of a Minimum Revenue Provision Policy for 2007/08 and 2008/09.	
2. Who is intended to benefit from this report and what are the outcomes?		Members. Once the policy is approved, finance staff can carry out the necessary calculations for the Authority's accounts.	
3. Who are the main stakeholders in relation to the report?		Members, external auditors, readers of the accounts.	
4. Who implements and who is responsible for the report?		Principal Accountant	

5. Please identify the differential impact in the terms of the six strands below. Please tick yes if you have identified any differential impacts. Please state evidence of negative or positive impacts below.

STRAND	**Y**	**N**	*NEGATIVE IMPACT*	**POSITIVE IMPACT**
Race		**N**		
Gender		**N**		
Disability		**N**		
Religion or Belief		**N**		
Sexuality		**N**		
Age		**N**		

	Y	**N**		**Y**	**N**
6. Can this adverse impact be justified on the grounds of promoting equality of opportunity for one group?			7. Should the policy/service proceed to a full impact assessment?		N

I am satisfied that this policy has been successfully impact assessed. I understand the impact assessment of this policy is a statutory obligation and that, as owners of this policy, we take responsibility for the completion and quality of this process.

Signed (completing person)…Sue Cornish, Principal Accountant….

Date …19 May 2008..