NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

MINIMUM REVENUE PROVISION POLICY 2009/10

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 20 February 2009

Purpose of Report:

To seek Members' approval of the Minimum Revenue Provision Policy for 2009/10.

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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 were an amendment to the 2003 regulations and introduced several changes to the capital finance regime for local authorities (including fire authorities) in England. The most significant of these were 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 Members of the Fire Authority received a report on 27 June 2008, outlining the changes in detail and recommending policies on MRP for the financial years 2007/08 and 2008/09.

1.3 Authorities must prepare an annual statement of their policy on MRP for submission to the full Fire Authority before the start of the financial year to which the policy relates.

2. REPORT

2.1 Under the 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 are 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.”*

2.2 This guidance translates into the asset life method, which effectively creates a charge relating to the financing costs of assets, charged out over the lives of those assets in equal instalments each year. This is considered to be both prudent and fair.

2.3 Authorities are permitted to continue charging MRP calculated using the old method for borrowing and credit arrangements which funded capital expenditure incurred before 1 April 2007. This method calculates a charge of 4% of the capital financing requirement each year to revenue. This concession recognises that fact that it would be difficult to retrospectively determine asset lives in relation to borrowing in the years before the regulations changed.

2.4 The following policy on MRP is therefore recommended to Members:

For all borrowing and credit arrangements to fund capital expenditure incurred before or during 2006/07, the minimum revenue provision

applied in 2009/10 will continue to 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 during or before 2006/07.

For all borrowing and credit arrangements to fund capital expenditure incurred from 2007/08 onwards, the minimum revenue provision applied in 2009/10 will be calculated on the basis of the Asset Life method.

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 revenue account 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 (e.g. fire appliances have an estimated life of 12 years). This generally results in a higher MRP charge under the new regulations. 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 budget 2009/10, 2010/11 and 2011/12 is presented elsewhere on this agenda and includes a budgeted MRP charge based on the recommended policy.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising directly from this report.

5. EQUALITY IMPACT ASSESSMENT

There are no equality impacts arising directly from this report.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are no legal implications which arise directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

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

9. RECOMMENDATIONS

That Members approve the adoption of the following Minimum Revenue Provision Policy for 2009/10:

- For all borrowing and credit arrangements to fund capital expenditure incurred before or during 2006/07, the minimum revenue provision applied in 2009/10 will continue to 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 during or before 2006/07.

- For all borrowing and credit arrangements to fund capital expenditure incurred from 2007/08 onwards, the minimum revenue provision applied in 2009/10 will be calculated on the basis of the Asset Life method.

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

None.

Peter Hurford
TREASURER TO THE FIRE AUTHORITY