WYRE FOREST DISTRICT COUNCIL

CABINET
15th FEBRUARY 2011

Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and updated Prudential Indicators

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME:	Stronger Communities
CORPORATE PLAN AIM:	A Well-Run and Responsive Council
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APPENDICES:	Appendix 1 - Minimum Revenue Provision (MRP) Policy - Current Appendix 2 - Minimum Revenue Provision (MRP) Policy - from 1st April 2011 Appendix 3 - Prudential and Treasury Indicators

1. PURPOSE OF REPORT

1.1 To revise the Council's Minimum Revenue Provision (MRP) Policy.

1.2 To restate the Prudential Indicators and Limits for the period 1st January 2011 to 31st March 2012 and the financial year 2012/2013, to supplement the full Treasury Management Strategy and Investment Policy and Strategy Statement presented to Cabinet on the 16th November 2010 and approved by Council on the 1st December 2010.

1.3 To fulfil the following key legislative requirements:

- The reporting of the Prudential Indicators as required by the CIPFA Prudential Code;
- The Minimum Revenue Provision (MRP) Policy Statement (as required by Regulation under the Local Government and Public Involvement in Health Act 2007).

2. RECOMMENDATIONS

Cabinet to recommend to Council to:

2.1 Approve the restated the Prudential Indicators and Limits for the period 1st January 2011 to 31st March 2011 and for the financial years 2011/2012 & 2012/2013.

2.2 Approve the revised Minimum Revenue Provision (MRP) Policy Statement that sets out the Council's policy on MRP included in Appendix 2, to be effective from 1st April 2011.

3. BACKGROUND

3.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. Where capital expenditure is not funded from capital receipts or from grant, it would be impractical to charge all of the expenditure to the Council's revenue account in the year in which it was incurred so such expenditure is spread over several years so as to try to match it to the useful life of the asset and how long it provides benefit to the local community. The Council is required to pay off an element of the accumulated capital spend each year through a revenue charge known as the Minimum Revenue Provision (MRP).

3.2 The concept of Minimum Revenue Provision (MRP) was introduced by the Local Government and Housing Act 1989. This required local authorities to assess their outstanding debt and to make an annual MRP charge to the General Fund of 4% of debt outstanding to ensure that a prudent provision was made for the future repayment of debt. MRP represented the minimum amount to be charged to an authority's revenue account each year and set aside as a provision to meet the cost of debt liability.

3.3 The highly complicated system for calculating statutory MRP was replaced in 2007/2008 by a general duty for authorities to determine their own prudent level of MRP. This change was accompanied by the issue of statutory guidance by the Department for Communities and Local Government (DCLG). The broad aim of this guidance is to ensure that prudent provision is made to repay debt liability over a period that is reasonably commensurate with that over which the capital expenditure provides benefit.

3.4 Effectively, when capital expenditure is incurred that is not financed through capital receipts, grant or revenue, the Council's borrowing need (its Capital Financing Requirement (CFR)) increases and therefore an MRP charge will be applied. It is important to note that the MRP charge is calculated based on the Council's underlying need to borrow, as defined by the guidance, and not on its actual external borrowings. This means that MRP also applies to capital expenditure financed from internal borrowing as in practice, the funds to finance capital spending are often borrowed internally from the Council's own resources rather than borrowed from the external market. This has been the case for this Council since the transfer of the Housing Stock in 2000, followed by a repayment and rescheduling of external debt. Since then, internal Capital Receipts allocated to projects in future years have been used to fund prudential borrowing. This allowed the Council to delay the requirement for external borrowing; but is not longer possible and it is highly probable the Council will enter into external borrowing in 2011/12.

3.5 It is a requirement of the statutory guidance that full Council approve an annual MRP Policy. The Council approved its current MRP Policy for 2010/11 on 24th February 2010. The policy is attached at Appendix 1. The Council then endorsed this policy on the 1st December 2010 when the Treasury Management Service Strategy was revised following the appointment of new external consultants, Sector Treasury Services Limited (Sector).

3.6 In summary, the policy stated that certain expenditure reflected in the borrowing requirement would be subject to MRP under Option 3 (Asset Life Method) of the

DCLG guidance. This means that MRP charges are to be spread over the estimated useful life of assets created. The Director of Resources uses powers delegated by Council to determine which assets are used for the calculation of MRP and has previously based this on the relatively short lives of vehicles and equipment resulting in an average asset life of 7.5 years.

3.7 Currently, the Council has a negative CFR (as adjusted for MRP purposes). Consequently there is no statutory requirement to charge an MRP provision, although the Council has always provided for a voluntary MRP in recent years as this was deemed prudent and affordable. As with the previous regulations, the new MRP Guidance is clear that "where an authority's CFR is nil or negative, this indicates that the authority's provision for debt is equal to or greater than the debt incurred. There is accordingly no need to make MRP in the following financial year under any of the specified options, or in any other way".

3.8 In the Council's case the negative CFR is due to "Adjustment A" – an historic exemption from making provision for the repayment of debt calculated in accordance with statutory regulation at the time of the significant changes in the capital accounting system. However, it is important to note that this represents a swathe of its actual debt liability that has been exempted from any MRP liability / repayment. So, whilst the Council does have an actual debt liability, of £1.697m as at 31 March 2010, Government Guidance would not require any statutory MRP charges until this liability (i.e. the Authority's CFR) increases beyond £7.204m.

3.9 ***It is important to note, that Sector has confirmed the Council could in fact have ceased charging MRP altogether until its CFR calculation becomes positive.*** However, based on both the current and revised MRP Policy it is forecast that there will be a mandatory requirement to make an MRP in the revenue account from 2011/12. The amount of MRP charged is dependent on the Council approved policy this report seeks to revise.

4. REVISED POLICY

4.1 The Director of Resources has reviewed this policy in consultation with Sector and is now recommending a change to the MRP Policy for 2011/12 and beyond. The unusually short-lived nature of assets (predominantly vehicles and equipment) financed in prior years from Internal Prudential Borrowing was not a true reflection of the average life of **all** assets held by the Council, which is in the region of 30 years.

4.2 Approval is therefore sought to amend the MRP Policy from 1st April 2011 to the following basis:

- For outstanding debt liability incurred prior to the new guidance – ie pre 2008/09 then MRP be calculated based on the previous 4% reducing balance method.

- For expenditure incurred after 1st April 2008 that MRP is calculated based on the asset life method. The Full proposed revised policy is attached at Appendix 2.

4.3 This recommendation is made primarily to ensure a balanced approach between the accounting principles of prudence and affordability and to ensure a prudent provision is made for the future repayment of debt that will reflect the average asset life.

4.4 As previously stated, the Council has only undertaken internal Prudential Borrowing since the Housing Transfer in 2000 but it is likely it will enter into external borrowing as set out in the Capital Programme Budget report from 2011/12. Other than the Single Site Capital Scheme, to be funded from Capital Receipts from asset sales, this Council has forecast annual capital spending of £5.48 million in 2011/12 and £1.68 million in 2012/13.

4.5 Although Sector has confirmed that the Council could in fact have ceased charging MRP altogether until its CFR calculation becomes positive in 2011/12, the Director of Resources considers this would have been too severe. However, it is now appropriate that we take our new Treasury advisor's advice and review our MRP policy to ensure the ongoing MRP provision in the revenue account is both prudent and affordable and the recommendations now made provide a suitable balance between these concepts whilst meeting all statutory requirements.

4.6 Against this background, it is felt that a rate of MRP of 4% for expenditure incurred prior to the significant change in Guidance in 2008/09 and then calculated based on a range of asset lives to reflect overall Capital Expenditure (rather than being restricted to Vehicles and Equipment) from 2011/12 meets the requirements of the guidance. This revised approach, no longer directly links the MRP calculation to the Vehicle Equipment and Systems Renewals Schedule; the Director of Resources will use his delegation to look across the whole Capital Programme and select the most appropriate asset lives on which to base the MRP calculation. This policy will ensure a considered balance between prudence and affordability as well as greatly aiding Financial Planning moving forward.

4.7 The revised policy will allow the Council to continue to make prudent provision for the repayment of debt over a period that is on average reasonably commensurate with that over which the expenditure provides benefits (this report assumes an average life of 30 years).

4.8 Having taken into account the view of the Council's advisors, officers feel that this approach is more suited to the Council's current financial situation whilst complying fully with current guidance. This paper demonstrates that the proposed revision to the MRP Policy results in a prudent basis for calculation of MRP charges going forwards and is a fair and reasonable approach for the Council to adopt. Council can be satisfied that the revised MRP Policy will result in their making the prudent provision for MRP that is required by the guidance.

5. FINANCIAL IMPLICATIONS

5.1 The Council's Capital Financing Requirement projections and MRP charges resulting from the proposed revised policy compared to those under the current policy are detailed in the table below. These reduced levels of MRP have been included in the Council's Base Budget Position reported to cabinet on 10th January 2011. This shows that the change to the proposed policy generates a total saving of £1.480m over the 3 year term of the Financial Strategy (see Financial Strategy 2011/2014, page 7, item 4.7).

	2011/12 £'000	2012/13 £'000	2013/14 £'000
Opening Capital Financing Requirement (CFR) *	3,104	7,766	9,714
Net prudential borrowing need for the year	4,662	1,948	(387)
Minimum Revenue Provision (MRP) – Proposed Policy	208	218	390
Minimum Revenue Provision (MRP) – Current Policy	698	796	802

*see Financial Strategy 2011/2014, page 125, item 5.6.3

6. BORROWING REQUIREMENT

6.1 The Council's Capital Financing Requirement (CFR), its underlying borrowing requirement, is detailed below. Capital expenditure was approved by Council on 24th February 2010, and the CFR was updated following the closure of the Accounts and reported to Cabinet on 16th November 2010 as part of the Treasury Management Mid Year Report. Since then the Capital Programme has been revised as part of the current Budget Process and the latest CFR figures based on the current and proposed MRP policy are also detailed in the table below:

	2009/2010	2010/2011	2011/2012	2012/2013
Capital Financing Requirement as at 31st March	**Actual**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Revised Budget Current MRP Policy-CFR	1,697	3,104	7,276	8,646
Revised Budget Proposed MRP Policy-CFR	1,697	3,104	7,766	9,714

7. PRUDENTIAL AND TREASURY INDICATORS FOR THE PERIOD 1st JANUARY 2011 to 31st MARCH 2012 AND THE FINANCIAL YEAR 2012/2013

7.1 Prudential and Treasury Indicators (as set out in Appendix 3 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

7.2 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This Council adopted the Code of Practice on Treasury Management on 27th February 2003 C90 (10), and as a result adopted a Treasury Management Policy Statement (Executive 13th February 2003 ED.223). The November 2009 revision of the Code was adopted by Council on 24th February 2010.

7.3 Within the Budget Report to Council in February 2011, revised Prudential Indicators to 2014/2015 will be presented for approval.

8. KEY ISSUES

8.1 The Key Issues are contained within sections 3 to 7 of this report, however, there have been a number of changes this year, and the most significant are as follows:

- The Grant Settlement awarded to this district on the 13th December has raised the importance of the review of the policy for the MRP to ensure an appropriate balance is secured between prudence and affordability; the new Treasury Management consultants Sector have done similar work with other Councils.

- Following the Government Comprehensive Spending Review on 20th October 2010, PWLB rates increased with immediate effect by 1%. This could have a significant impact on the Financial Strategy and alternative sources of external borrowing will be investigated

- The Council can be satisfied that the revised MRP Policy will continue to result in their making the prudent provision for MRP that is required by the guidance.

9. FINANCIAL IMPLICATIONS

9.1 The Financial Implications of the Treasury Management function are included in the Council's Medium Term Financial Strategy and Four Year Budget and Policy Framework. It should be noted that the Base Budget contained within this Strategy assumes approval of the revised MRP policy from 1st April 2011 and therefore takes account of the £1.480m resultant saving over the 3 year period.

10. LEGAL AND POLICY IMPLICATIONS

10.1 The Local Government Act 2003 supplemented by Regulations set out a new framework for a prudential system for local authority capital finance. This Act, together with CIPFA's Prudential Code for Capital Finance in Local Authorities, came into effect on 1st April 2004. This code together with recent revised editions, guides decisions on what Local Authorities can afford to borrow and has statutory backing under Regulations issued in accordance with the Local Government Act 2003.

10.2 Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services as part of the Authority's Standing Orders and Financial Regulations, gives it the status of a "code of practice made or approved by or under any enactment", and hence proper practice under the provisions of the Local Government and Housing Act 1989.

11. RISK MANAGEMENT

11.1 The Council's external auditors have been informed of this change of policy, although they will not be able to give their opinion on the Council's overall financial statements for 2011/12 until they have completed their Financial Statements Audit in September 2012. The external auditors have confirmed that they are satisfied that it is for the Council to determine an MRP Policy that complies with the CLG guidance and have been invited to comment on the proposals contained in this report.

12. EQUALITY IMPACT ASSESSMENT

12.1 This is a financial report and there is no requirement to consider an Equality Impact Assessment.

13. CONCLUSION

13.1 See Recommendations.

14. CONSULTEES

14.1 Sector Treasury Services.
14.2 Cabinet.
14.3 Leader of the Council.
14.4 Corporate Management Team.
14.5 Treasury Management Review Panel.
14.6 Corporate Resources Scrutiny Committee.

15. BACKGROUND PAPERS

15.1 Local Government Act 2003.

15.2 CIPFA's Revised Prudential Code for Capital Finance in Local Authorities, 2009.

15.3 CIPFA's Revised Code of Practice on Treasury Management in the Public Services, 2009.

15.4 Local Government and Housing Act 1989.

15.5 Cabinet Report 16/11/2010– Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2010/2011.

15.6 Council 24/02/10 – The Prudential System of Local Government Finance and the Treasury Management Policy and Strategy Report 2010/2011.

15.7 Cabinet Report 21/09/2010 – Annual Report on Treasury Management Service and Actual Prudential Indicators 2009/2010.

15.8 Treasury Management Review Panel Report 24/01/11.

APPENDIX 1 CURRENT MINIMUM REVENUE PROVISION (MRP) POLICY

Minimum Revenue Provision – an introduction

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

APPENDIX 1 CURRENT MINIMUM REVENUE PROVISION (MRP) POLICY (Continued)

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments,
b. annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

APPENDIX 1 CURRENT MINIMUM REVENUE PROVISION (MRP) POLICY (Continued)

4. Date of implementation

The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). Authorities are however reminded that the CLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

Minimum Revenue Provision Policy Statement for the period 1st January 2011 to 31st March 2011

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess MRP for the period 1st January 2011 to 31st March 2011 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Capital expenditure reflected within the debt liability at 31st March 2010 will, under delegated powers, be subject to MRP under option 3 which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

APPENDIX 2 MINIMUM REVENUE PROVISION (MRP) POLICY FROM 1ST APRIL 2011

Minimum Revenue Provision – an introduction

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

APPENDIX 2 MINIMUM REVENUE PROVISION (MRP) POLICY FROM 1ST APRIL 2011 (Continued)

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments,
b. annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

APPENDIX 2 MINIMUM REVENUE PROVISION (MRP) POLICY FROM 1ST APRIL 2011 (Continued)

4. Date of implementation

The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). Authorities are however reminded that the CLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

Minimum Revenue Provision Policy Statement for the period 1st April 2011 onwards

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess MRP for the period 1st April 2011 onwards in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003

For the large proportion of the current debt liability relating to expenditure incurred before 1 April 2008 (ie pre 2008/09 expenditure) an annual MRP charge based on the previous 4% reducing balance method will be made. This is consistent with option 1 of the Guidance and ensures a prudent provision is made.

Capital expenditure reflected within the debt liability at 31st March 2010 will, under delegated powers, be subject to MRP under option 3 which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building. This is consistent with option 3 of the Guidance and ensures a prudent provision will be made.

Estimated life periods will be determined by the Director of Resources (Section 151 Officer) under powers delegated by Council. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council as determined by the Director of Resources. However, under these powers delegated by Council, the Director of Resources reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. For example, the Guidance recommends that in the case of Loans and grants towards capital expenditure by third parties (under Regulation 25(1)(b), a charge should be made over a period “equal to the estimated life of the assets in relation to which the third party expenditure is incurred” and this is the approach adopted in this revised MRP Policy. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

APPENDIX 2 MINIMUM REVENUE PROVISION (MRP) POLICY FROM 1ST APRIL 2011 (Continued)

In accordance with the Guidance, MRP will be charged in the financial year following that in which the asset is completed or becomes operational.

The Council are satisfied that then policy for calculating MRP set out in this Policy Statement will result in the Council continuing to make prudent provision for the repayment of debt, over a period that is on average reasonably commensurate with that over which expenditure provides benefit.

The Director of Resources will, where it is prudent to do so, use discretion to review the overall financing of the Capital Programme and the opportunities afforded by the regulations, to maximise the benefit to the Council whilst ensuring the Council meets its duty to charge a prudent provision.

In summary, the revised MRP Policy will adopt option 1: Regulatory Method of a uniform rate of 4% of the adjusted CFR on a reducing balance method for expenditure incurred prior to 1st April 2008, and then Option 3: Asset Life Method for capital expenditure after 1st April 2011 with the Director of Resources (Section 151 Officer) determining asset lives under powers delegated by Council.

APPENDIX 3 PRUDENTIAL AND TREASURY INDICATORS

TABLE 3: PRUDENTIAL INDICATORS	2009/2010	2010/2011	2011/2012	2012/2013
Extract from budget report	**Actual**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Capital Expenditure	6,147	6,171	13,707	2,976
Ratio of financing costs to net revenue stream	1.80%	2.17%	1.45%	1.46%
Net borrowing requirement				
brought forward 1 April	(18,090)	(13,010)	(14,466)	(2,300)
carried forward 31 March	(13,010)	(14,466)	(2,300)	551
Capital Financing Requirement as at 31 March	1,697	3,104	7,766	9,714
Annual change in Capital Financing Requirement	(132)	1,407	4,662	1,948
Incremental impact of capital investment decisions		**£**	**£**	**£**
Increase in council tax (band D) per annum		0.26	2.24	2.93

TABLE 4: TREASURY MANAGEMENT INDICATORS	2009/2010	2010/2011	2011/2012	2012/2013
	Actual	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Authorised Limit for external debt -				
Borrowing	5,000	6,000	15,000	15,000
Other long term liabilities	0	0	0	0
TOTAL	5,000	6,000	15,000	15,000
Operational Boundary for external debt -				
Borrowing	2,500	5,000	10,000	10,000
Other long term liabilities	0	0	0	0
TOTAL	2,500	5,00	10,000	10,000
External debt	35	34	3,700	5,551
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	£10m	£7m	£4m	£2m
(per maturity date)				

TABLE 5: Maturity structure of fixed rate borrowing during 2010/11	Upper limit	Lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%