Appendix A

ANNUAL *MINIMUM REVENUE PROVISION* STATEMENT 2009/10

Introduction

Under 2003 Regulations[1], local authorities are required to charge to their revenue account for each year a Minimum Revenue Provision (MRP) to account for the cost of their debt in that financial year.

Debt is created where capital expenditure has been financed by borrowing or other credit arrangements (e.g. finance leases); it may be self-financed or Government-supported. Supported Capital Expenditure means expenditure taken into account by Government in the calculation of the Revenue Support Grant due to the authority.

Prior to its amendment by the 2008 Regulations[2], the method authorities were required to follow in calculating MRP was prescribed. For the financial year 2007/08 and subsequent years, the detailed calculation has been replaced with a requirement that local authorities calculate an amount of MRP which they consider to be "prudent".

At the same time the Secretary of State issued guidance[3] on the duty to make a prudent provision and local authorities are legally obliged to "have regard" to this guidance.

Authorities are required to prepare an annual statement of their policy on making MRP for submission to their Full Council. The aim is to give elected Members the opportunity to scrutinise the proposed use of freedoms conferred by the arrangements, following a shift in emphasis from regulations to guidance.

Meaning of "Prudent Provision"

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. The Secretary of State considers that the methods of making prudent provision include the options set out below.

For capital expenditure incurred before 1 April 2008 and incurred on or after that date if it forms part of Government-Supported Capital Expenditure:

Option 1: Regulatory Method - *MRP is equal to the amount determined in accordance with the 2003 Regulations (as amended), as if they had not been revoked by the 2008 Regulations*

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[1] Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 2003/3146, as amended]

[2] Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414]

[3] Guidance on Minimum Revenue Provision, issued by the Secretary of State for Communities and Local Government, under Section 21(1A) of the Local Government Act 2003, 28 February 2008

This calculation would include any technical adjustments, as statutorily required.

Option 2: CFR Method - *MRP is equal to 4% of the Capital Financing Requirement (CFR), as derived from the balance sheet at the end of the preceding financial year*

This produces a similar MRP charge to Option 1, but is technically simpler.

Option 3: Asset Life Method - *MRP is determined by reference to the life of the asset, by equal instalment method or annuity method*

MRP should commence in the financial year following the one in which expenditure was incurred, or the year following the one in which the asset becomes operational.

Option 4: Depreciation Method - *MRP is to be equal to the provision required in accordance with depreciation accounting*

For capital expenditure incurred on or after 1 April 2008 and which does not form part of Government-Supported Capital Expenditure, only *Options 3* and *4* are considered prudent under the guidance issued by the Secretary of State.

Finance Leases

In the case of finance leases, the MRP is equal to the amount that goes to write down the Balance Sheet liability; thus *Option 3* will apply in a modified form.

Policy Statement

The Council adopts the following policies in respect of calculating its annual Minimum Revenue Provision (MRP) for 2009/10 and subsequent years.

For capital expenditure incurred before 1 April 2008 and incurred on or after that date if it forms part of Government-Supported Capital Expenditure: **EITHER *Option 1 (Regulatory Method)* OR *Option 2 (CFR Method)*** - to be determined following a study of the aggregated position for Cheshire East

For capital expenditure incurred before 1 April 2008 and which does not form part of Government-Supported Capital Expenditure: **EITHER *Option 1 (Regulatory Method)*, *Option 2 (CFR Method)* AND/ OR *Option 3: Asset Life Method*** - to be determined following a study of the aggregated position for Cheshire East and consideration of inherited practices

For capital expenditure incurred on or after 1 April 2008 and which does not form part of Government-Supported Capital Expenditure: ***Option 3: Asset Life Method*** - where MRP is charged in equal annual instalments over the estimated useful life of the asset, commencing in the financial year following the one in which expenditure was incurred, or the year following the one in which the asset becomes operational

Other approaches may be developed, but they will be fully consistent with the statutory duty to make prudent revenue provision. These may relate to large, complex or novel schemes. Legal advisors and external auditors will be consulted if significant departures from the guidance are proposed and any alternative approaches developed will be incorporated in future annual policy statements, for approval by Council prior to application.