EXETER CITY COUNCIL

EXECUTIVE
9 FEBRUARY 2010

THE PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL AUTHORITIES (INCORPORATING THE ANNUAL STATEMENT OF MINIMUM REVENUE PROVISION)

1. PURPOSE OF THE REPORT

1.1 To set out the proposed 2010/11 prudential indicators for capital finance for adoption by the Council and set the annual statement of Minimum Revenue Provision (MRP).

2. BACKGROUND

2.1 With effect from 1 April 2004, the Government abolished the capital finance legislation in Part 4 of the Local Government and Housing Act 1989 and the Local Authorities (Capital Finance) Regulations 1997 (Statutory Instrument 1997/319) and replaced it with a new Prudential system based on self regulation. This means that Councils are free to borrow for capital investment where the borrowing is affordable.

2.2 The Prudential Code has been revised during 2009, although most of the changes relate to definitions rather than the indicators set.

2.3 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. The Regulations require Full Council to approve an Annual Statement of Minimum Revenue Provision which is the amount set aside from revenue for the repayment of debt principal relating to the General Fund only. The Housing Revenue Account remains exempt from making Minimum Revenue Provision although it can make voluntary set asides if it wishes.

2.4 The Prudential Indicators / MRP report will be incorporated within the Budget Book for approval at the full Council meeting as per the statutory requirement.

3. PRUDENTIAL INDICATORS

3.1 The proposed prudential indicators for the next three years are shown in Appendix A-C.

3.2 There are very few changes to the indicators from last year other than updating of the capital programme and the impact on the Council Tax of newly approved schemes. The council has continued to borrow during 2009-10 and this is reflected in the Authorised Limit of the Council and the Operational Boundary. This will be sufficient to manage the capital programme and any daily borrowing requirements.

4. MINIMUM REVENUE PROVISION

4.1 The Regulations require that "a local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent".

4.2 Minimum Revenue Provision (MRP) is an amount set aside from revenue to meet the repayment of debt principal. Under the old Regulations this was 4% of principal outstanding for the General Fund and no requirement to set aside MRP in the Housing Revenue Account. In local government accounting depreciation is charged and then reversed out so it does not affect the level of Council Tax, however MRP is charged to the General Fund and therefore does affect levels of Council Tax.

4.3 The Secretary of State for Communities and Local Government has issued guidance under section 21(1A) of the Local Government Act 2003. This states that "the broad aim of 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 the grant."

4.4 The guidance notes detail five options which the Secretary of State considers prudent. These are described in section 4 below:

(a) Regulatory Method;
(b) Capital Financing Requirement Method;
(c) Asset Life (Equal Instalment) Method;
(d) Asset Life (Annuity) Method; and
(e) Depreciation Method

5. MRP OPTIONS

5.1 **Regulatory Method**
MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations as if they had not been revoked. In effect this is 4% of the debt principal outstanding.

5.2 **Capital Financing Requirement Method**
MRP is equal to 4% of the non-housing Capital Financing Requirement, which is a Prudential Indicator.

5.3 **Asset Life (Equal Instalment) Method**
Where capital expenditure on an asset is financed wholly or partly by borrowing then MRP is determined by reference to the life of the asset and an equal amount charged in each year.

5.4 **Asset Life (Annuity) Method**
MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing.

5.5 **Depreciation Method**
MRP is equal to the provision required in accordance with depreciation accounting in respect of the asset, including any amount of impairment chargeable to the Income and Expenditure Account. As standard depreciation rules are used where an asset is part financed by loan, e.g. 50% loan, 50% Capital Receipt, then the full 100% depreciation charge on the asset is required to be charged as MRP. MRP is required to be charged annually until the cumulative amount of the provision is equal to the original expenditure financed by borrowing. Should the asset be disposed of then the charge needs to continue as if the asset had not been disposed of unless the debt is repaid.

6. 2010-11 MRP

6.1 In respect of 2010-11, the Council will match borrowing against specific capital investment and adopt the Asset Life (Equal Instalment) Method for MRP. In this way the funding for the asset will be paid off over the useful life of that asset. This will ensure that loans are repaid over the asset life thus freeing financial resources for investment in other schemes or in asset renewal. It is also simple to operate and gives certainty in each year as to the level of charge for principal. The other advantage is that it makes business cases and scheme appraisals easier to compile. As a general rule the Council will seek to borrow over the same period of the asset life up to a maximum of 50 years in line with the Regulations. Total borrowing at the end of 2009-10 is likely to be £8.4m, which will be allocated to improvements to longer dated assets. It would be appropriate therefore to write down over 25 years and the charge for 2010-11 will be £336,000.

4. RECOMMENDATION

4.1 It is recommended that:

- The prudential indicators set out in Appendix A–C be adopted.
- The Annual Statement of Minimum Revenue Provision for the Council be approved.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report:

1. The Prudential Code for Capital Finance in Local Authorities
2. The Prudential Code Guidance Notes