

REPORT TO THE FIRE AUTHORITY

DATE: 2 February 2009

REFERENCE:

SUBJECT: MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT FOR 2009/10.

SUMMARY:

Each year the Authority is required to approve a policy outlining how the Minimum Revenue Provision (funds set aside to repay loans and other long term liabilities) is to be calculated in the next financial year. The policy statement sets out the proposed MRP calculations for 2009/10 for Members' approval. The proposed calculations are based on the recommended options set out in regulations

OBJECTIVES		IMPLICATIONS	
More than an Emergency Service		Operational Risk Management	
Trusted & Respected by our customers		Community Risk Reduction	
Saving Lives, Protecting Communities		Learning & Development	
Managing within Budget	Yes	Service Control	
Allocate Resources to Priorities		Civil Contingencies & Resilience	
Efficiency savings		Finance & Procurement	Yes
Alternative funding & resources		H.R.	
Managing People		ICT	
Risk Reduction Planning		CCMS	
Partnership Working		Transport	
Effective & Empowered People		Health & Safety	
		Premises	
		Sustainability & Environment	
		Welsh Language	
		Legal	Yes
		Governance	Yes
		Equality & Diversity	
		Representative Body Consultation	

COMMENTS/OBSERVATIONS ON THE ABOVE OBJECTIVES/IMPLICATIONS:

The proposed policy results in an increase in MRP when compared to the previously used method of calculations. This increase in the MRP charge to revenue will be offset by the reduction in the leasing charge to revenue due to moving from operating leases to finance leases.

RECOMMENDATIONS:

That the 2009/10 Minimum Revenue Provision Policy Statement be approved

BACKGROUND PAPERS USED IN PREPARATION OF THIS REPORT:

- a) The proposed Revenue Budget and Capital Programme submitted to the Authority on 1st December 2008.
- b) The Code of Practice On Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice (CIPFA).
- c) Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008.
- d) International Financial Reporting Standards and International Accounting Standards

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MINIMUM REVENUE PROVISION POLICY STATEMENT FOR THE FINANCIAL YEAR ENDING 31ST MARCH 2010

Each year the Authority is required to set aside funds from the revenue to meet future liabilities to repay loans and finance leases. This amount set aside is called the Minimum Revenue Provision (MRP) and by Regulation, a policy on the method of calculation has to be approved prior to the start of each financial year. It should be pointed out that MRP is a cash charge against revenue and therefore has a direct impact on the contributions required from the Constituent Authorities

The methods adopted for calculating MRP in 2009/10 by the Mid and West Wales Fire and Rescue Authority for capital expenditure financed by loan or other long term liabilities (mainly finance leases) are:

For expenditure incurred before or on 31 March 2009

Option 1 – The Regulatory Method.

MRP is calculated at 4% of the capital financing required for this expenditure at 1 April 2009.

For expenditure incurred on or after 1 April 2009

Option 3 – The Asset Life Method with equal installments.

The MRP calculation reflects the repayment of the loan or finance lease used to fund the expenditure. In the case of loans, MRP is calculated by dividing the principal value of the loan by the useful life of the asset. MRP is first charged in the year after acquisition. Where a finance lease is used, MRP is calculated by dividing the principal value of the lease by the shorter of the lease period or the useful life of the asset. Lease periods have been estimated and the value of the MRP may have to be adjusted when the leases are entered into and actual lease periods are known. MRP is first charged in the same year as the first lease rental is payable, usually in the year of acquisition.

For 2009/10

The total MRP chargeable under option 1 is £391,000,

The total MRP chargeable under option 3 is £100,000.

The total MRP chargeable is £491,000

Under the previous MRP calculation method the MRP for 2009/10 would have been £391,000. However it should be noted that the whole of the option 3 charge for 2009/10 relates to items funded by finance lease. When preparing the revenue budgets it was assumed that these assets would be funded by operating leases resulting in a revenue budget provision being made for lease rental payments. As these items are to be funded by finance leases, there will be a saving in the revenue budget. This saving will approximate the additional option 3 MRP charge so that the net cost to revenue for MRP will be:

Total MRP charge for 2009/10	£491,000
Less savings in operating lease rentals	<u>£100,000</u>
Net cost to revenue	<u>£391,000</u>