

**SUPPLEMENTARY RECOMMENDATION FROM THE EXECUTIVE MEETING 14
OCTOBER 2008 - EXE/0800075**

**Copeland Borough Council
Statement of Executive Decision**

Agenda Item: Urgent Item 11	
Subject: Release of Over Provision of Minimum Revenue Provision	
Date of Decision: 14 October 2008	Decision made by:
Decision Reference: EXE/08/0075	Full Executive

Portfolio Holder: Councillor A Holliday

Context:
This report advises Members of the financial position relating to the Minimum Revenue Provision (MRP). It proposes that £750k be released from the set aside to General Fund Reserves, as part of the closure of the 2006/07 Statement of Accounts

Key Decision Status:
Yes - Financial

Decision
That Council be recommended that £750k of the £890k over provision of MRP set aside be released to General Fund Reserves, subject to agreement of the external auditor in closing of the 2006/07 Statement of Accounts.

Explanation
Local Authorities are required to charge MRP to their revenue account for each financial year, to account for the cost of their debt in that financial year. This amount is calculated, and set aside, to ensure that debt is repaid over a period that is in line with the period over which the capital expenditure provides benefits.

As part of the audit of the 2006/07 Accounts, the external auditor identified that the Council had overstated the amount of MRP to be set aside because grants had been included in the calculation, dating back to 1995/96. Their findings showed 3 significant adjustments were required. The Council now has the opportunity to correct these errors and to release this element of the set aside funds

Alternative Options Considered:
None

Interests Declared: None

Implementation Date: 24 October 2008	Publication Date: 17 October 2008	Recorded by: D James
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Call-in Period Expires on: 24 October 2008	Contact Officers: J Crellin
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RELEASE OF OVER PROVISION OF MINIMUM REVENUE PROVISION

EXECUTIVE MEMBER: Cllr A Holliday
LEAD OFFICER: Julie Crellin, Head of Finance and Management Information Systems
REPORT AUTHOR: Julie Crellin, Head of Finance and Management Information Systems

Summary & Recommendation:

This report advises Members of the financial position relating to the Minimum Revenue Provision (MRP). It proposes that £750k be released from the set aside to General Fund Reserves, as part of the closure of the 2006/07 Statement of Accounts.

Recommendation:

That the Executive recommend to Full Council that £750k of the £890k over provision of MRP set aside be released to General Fund Reserves, subject to agreement of the external auditor in closing of the 2006/07 Statement of Accounts.

1 BACKGROUND

- 1.1 Local Authorities are required to charge MRP to their revenue account for each financial year, to account for the cost of their debt in that financial year. This amount is calculated, and set aside, to ensure that debt is repaid over a period that is in line with the period over which the capital expenditure provides benefits.
- 1.2 As part of the audit of the 2006/07 Accounts, the external auditor identified that the Council had overstated the amount of MRP to be set aside because grants had been included in the calculation, dating back to 1995/96. Their findings showed 3 significant adjustments were required. The Council now has the opportunity to correct these errors and to release this element of the set aside funds.

- 1.3 The detailed calculation is shown at Appendix A. This shows the 3 adjustments required. In total, £891k has been set aside, over and above the required amount.
- 1.4 The present position is that the Council has only 1 loan of £5 million, repayable over the next 20 years. This loan was taken out in the 1970's and the cost of early repayment incurs a large premium. The Council's Treasury Management consultants are keeping this under review but do not advise early repayment at this stage.
- 1.5 The Medium Term Financial Strategy (MTFS), approved in February 2008, confirms that there is no requirement to borrow funds in the near future. It is anticipated that capital expenditure can be funded from unallocated capital receipts i.e. the capital financing requirement is zero.
- 1.6 There is, therefore, no requirement to set aside further MRP for the life of the MTFS and the amount already set aside is above the required amount because of the reasons outlined at 1.2 above.

2 OPTIONS

- 2.1 The Council could choose to leave the MRP as voluntary set aside, so that provision for this need not be made in future years. If this route is taken, the Audit Commission has advised that the voluntary set aside cannot be reversed in future years.
- 2.2 A prudent amount of the over provision (£750k of the £890k) could be released to General Fund Reserves, which could be used in the event that the MTFS targets for savings and/or additional income are not achieved. Unallocated reserves could provide for contingencies. It should be noted that if this approach is taken, then any borrowing in the future may require additional MRP to be set aside and there is no provision for this in the MTFS.
- 2.3 The whole amount of the over provision (£890k) could be released to the General Fund Reserves. The risk is that it is more likely that provision would have to be made in future years i.e. a larger gain in the short term but there would be a longer term liability.

3 FINANCIAL AND HUMAN RESOURCES IMPLICATIONS (INCLUDING SOURCES OF FINANCE)

- 3.1 If the over provision is not released as part of the closure of the 2006/07 Accounts, then this voluntary set aside cannot be reversed in the future and the funds are not available for use.
- 3.2 The release of £750k would increase the available General Fund Reserves, whilst leaving a prudent amount of MRP set aside.
- 3.2 Release of the whole over provision of £890k may lead to further provision being needed in future years.

4 PROJECT AND RISK MANAGEMENT

- 4.1 The financial risks have been considered at 3.1 and 3.2 above.

5 IMPACT ON CORPORATE PLAN

- 5.1 An additional £750k would be available in unallocated reserves.

List of Appendices

Appendix A – Calculation of Over Provision of MRP 1996/97 to 2003/04.

List of Background Documents: None

List of Consultees: Corporate Team,

CHECKLIST FOR DEALING WITH KEY ISSUES

Please confirm against the issue if the key issues below have been addressed. This can be by either a short narrative or quoting the paragraph number in the report in which it has been covered.

Impact on Crime and Disorder	n/a
Impact on Sustainability	n/a
Impact on Rural Proofing	n/a
Health and Safety Implications	n/a
Impact on Equality and Diversity Issues	n/a
Children and Young Persons Implications	n/a
Human Rights Act Implications	n/a
Monitoring Officer comments	No comments
Acting S151 Officer comments	Author of the report.

Please say if this report will require the making of a Key Decision YES

COPELAND BOROUGH COUNCIL
CALCULATION OF OVER PROVISION OF MRP 1996/97 TO 2003/04

APPENDIX A

4%

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Total	Overprovision
	£	£	£	£	£	£	£	£		
Adjustment 1										
Original Credit Ceiling (non-housing)										
ERDF	1,740,000	1,670,400	1,603,584	1,539,441	1,477,863	1,418,748	1,361,999	1,307,519	12,119,553	
HAG	1,094,000	1,021,440	980,582	941,359	887,557	832,854	799,540	741,103	7,411,037	
	2,804,000	2,691,840	2,584,166	2,480,800	2,381,568	2,286,305	2,194,853	2,107,059	-19,530,591	
MRP 4% on a reducing basis	112,160	107,674	103,367	99,232	95,263	91,452	87,794	84,282	781,224	
MRP - before adjustment	251,000	251,000	255,000	229,000	191,000	218,000	231,000	293,000	1,919,000	
HSG MRP	311,000	306,000	296,000	293,000	293,000	300,000	293,000	0	2,085,000	
Sub total of Orig MRP	562,000	557,000	551,000	525,000	484,000	518,000	524,000	293,000	4,014,000	
Adj to MRP for overstatement of credit ceiling	(112,160)	(107,674)	(103,367)	(99,232)	(95,263)	(91,452)	(87,794)	(84,282)	(781,224)	(781,224)
	449,840	449,326	447,633	425,768	388,737	426,548	436,206	208,718	3,232,776	

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Total	Overprovision
	£	£	£	£	£	£	£	£		
Adjustment 2										
Original Credit Ceiling (non-housing)										
ERDF	96,000	94,080	90,317	86,704	83,236	79,907	76,710	76,710	608,954	
HAG	239,000	229,440	220,262	211,452	202,894	194,874	187,079	187,079	1,485,101	
	0	337,000	323,520	310,579	298,156	286,230	274,781	263,789	-2,094,055	
MRP 4% on a reducing basis	0	13,480	12,941	12,423	11,926	11,449	10,991	10,552	83,762	
MRP - before adjustment	0	0	0	0	0	0	0	0	0	
HSG MRP	0	0	0	0	0	0	0	0	0	
Sub total of Orig MRP	0	0	0	0	0	0	0	0	0	
Adj to MRP for overstatement of credit ceiling	(13,480)	(12,941)	(12,423)	(11,926)	(11,449)	(10,991)	(10,552)	(10,552)	(83,762)	(83,762)
	0	-13,480	-12,941	-12,423	-11,926	-11,449	-10,991	-10,552	-83,762	

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Total	Overprovision
	£	£	£	£	£	£	£	£		
Adjustment 3										
Original Credit Ceiling (non-housing)										
ERDF	120,000	115,200	110,592	106,168	101,922	97,845	97,845	97,845	651,727	
MRP 4% on a reducing basis	0	0	120,000	115,200	110,592	106,168	101,922	97,845	-651,727	
MRP - before adjustment	0	0	0	0	0	0	0	0	0	
HSG MRP	0	0	0	0	0	0	0	0	0	
Sub total of Orig MRP	0	0	0	0	0	0	0	0	0	
Adj to MRP for overstatement of credit ceiling	(4,800)	(4,800)	(4,608)	(4,424)	(4,247)	(4,077)	(3,914)	(3,914)	(26,069)	(26,069)
	0	0	-4,800	-4,608	-4,424	-4,247	-4,077	-3,914	-26,069	

PROPOSAL TO BE SUBMITTED TO THE EXECUTIVE & FULL COUNCIL : £750k to be released to General Fund balances

Over Provision of MRP in the period

(891,055)

Adjustments as per Audit Commission Letter to G. Ayling 1 November 2007
Adjustment 1

- 1995/96 The statement of accounts show that the Council set aside in the Provision for Credit Liabilities £1,740k ERDF grant and £1,064k HAG grant. The credit ceiling was not reduced by these amounts.
- 1996/97 The statement of accounts show that the Council set aside in the PCL £98k ERDF grant and £239k HAG. The credit ceiling was not reduced by these amounts.
- 1997/98 The statement of accounts show that the Council set aside in the PCL £120k ERDF grant. The credit ceiling was not reduced by this amount.

Source: Final Accounts 05/06 working paper: Adjustment A

	Opening Overall Credit Ceiling	Opening Non Housing Credit Ceiling	Grant Loss	Communit ion Adjustme nt	MRP - before adjustment	HSG MRP	Non-HRA
1992/93	26,921,601	11,935,642	1,027,088				
1993/94	21,107,169	5,986,520	998,732				
1994/95	22,444,720	6,184,755	903,010	148,000	217,000	325,000	5,501,575
1995/96	21,864,747	6,203,981	887,406	185,000	219,000	313,000	5,451,199
1996/97	21,832,889	6,284,490	864,291	31,000	251,000	311,000	5,871,165
1997/98	21,760,747	6,456,604	842,439	255,000	251,000	366,000	6,154,769
1998/99	21,483,255	6,680,948	812,179	286,000	255,000	296,000	5,270,373
1999/2000	20,520,306	5,731,984	768,611	307,000	229,000	296,000	4,379,142
2000/01	19,438,936	4,775,782	713,640	296,000	191,000	300,000	5,129,617
2001/02	20,456,474	5,463,460	629,843	296,000	218,000	300,000	6,085,320
2002/03	20,266,394	6,360,392	529,072	254,000	231,000	293,000	
2003/04							
2004/05							
2005/06							
2006/07							
2007/08							
2008/09							
2009/10							
2010/11							
2011/12							