DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/10/11**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**16 JULY 2010**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2010/2011**
LEAD OFFICER	**TREASURER**
RECOMMENDATIONS	***1. That the Devon and Somerset Fire and Rescue Authority be recommended to approve:*** ***(a) the revised capital programme for 2010/2011 to 2012/2013, as included as Appendix C to this report;*** ***(b) the revised Prudential Indicators, as included as Appendix D to this report; and*** ***(c) the revised Minimum Revenue Provision (MRP) Statement 2010/2011 as included as Appendix E to this report.*** ***2. That, subject to (a) to (c) above, the Committee notes:*** ***(a) the budget monitoring position in relation to projected spending against the 2010/2011 revenue budget;*** ***(b) the performance against 2010/2011 financial targets.***
EXECUTIVE SUMMARY	This is the first financial performance report to be considered for the current financial year which, in particular, provides an early indication of projected spending against the 2010/2011 agreed revenue budget. At this stage, projections indicate that revenue spending will be £0.486m less than budget, equivalent to just 0.65% of the total budget. This report also provides a summary of the Authority's forecast performance against its financial targets.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.

APPENDICES	Appendix A – Summary of Forecast Performance against 2010/2011 Financial Targets. Appendix B – Subjective Analysis of 2010/2011 Revenue Spending. Appendix C – Revised Capital Programme 2010/2011 to 2012/2013. Appendix D – Revised Prudential Indicators 2010/2011 to 2012/2013. Appendix E – Revised Minimum Revenue Provision (MRP) Statement 2010/2011.
LIST OF BACKGROUND PAPERS	Personal Preventative Equipment (PPE) Replacement – Integrated Clothing Project (ICP) Report RC/09/9 to Resources Committee 16 November 2009. Capital Programme 2010/2011 to 2012/1013 Report DSFRA/10/2 to DSFRA meeting held on the 19 February 2010. Treasury Management Strategy (Including Prudential and Treasury Indicators 2010/2011 to 2012/2013 Report DSFRA/10/3 to DSFRA meeting held on the 19 February 2010.

1. INTRODUCTION

1.1 This report provides the first monitoring report for the current financial year. As well as providing projections of spending against the 2010/2011 revenue budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

1.2 The report is presented in three sections;

SECTION A – Revenue Budget 2010/2011.
SECTION B – Capital Budget and Prudential Indicators 2010/2011.
SECTION C – Other Financial Indicators.

1.3 Appendix A to this report provides a summary of performance against each of our targets. The key issues relating to our forecast performance against each of these targets are explained within each section of this report.

2. SECTION A - REVENUE BUDGET 2010/2011

2.1 Current projections are for total revenue spending in 2010/2011 to be £74.649m, as compared to an approved budget of £75.135m, representing an underspend of £0.486m, equivalent to just 0.65% of the total budget.

2.2 The projections are based upon the spending position at the end of June 2010, historical trends, and information from budget managers on known commitments. It should be noted that whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year, in particular retained pay costs which are linked to activity levels, and it is inevitable therefore that final spending figures for the financial year will differ than those projected in this report. Appendix B provides an analysis of projected spending against each of the subjective budget headings, and explanations of the more significant variations from budget are explained below in paragraphs 3 to 7 below.

3. EMPLOYEE COSTS

Wholetime Staff

3.1 At this stage spending against wholetime pay costs is anticipated to be £0.334m less than budget. It should be emphasised that this projection is based on an assumption of a zero pay increase from July 2010, as compared to the 1.0% provision that had been made in setting the 2010/2011 budget. Should the nationally negotiated settlement be anything more than zero, then those additional costs would need to be factored into future projections.

Retained Staff

3.2 Spending is forecast to be £0.234m underspent again on the assumption of a zero pay increase from July 2010. In making this projection an assumption has also been made that activity levels in the remainder of the financial year are consistent with the average for the same period for the last three financial years. It should be emphasised that by its very nature retained pay costs can be subject to significant variations e.g. volatility to spending caused from spate weather conditions.

Control Room Staff

3.3 Whilst salary costs for control room staff are forecast to be £0.308m under budget, as a result of additional control staff, originally employed by the Service as part of the RCC Initial Staffing Poll (ISP), being transferred to the employment of the Local Authority Controlled Company (LACC) from 1st April 2010, the New Burdens grant income will also now pass to the LACC and is therefore cost neutral to DSFRS overall budget position.

Non-Uniformed Staff

3.4 The saving of £0.128m against non-uniformed pay costs again makes an assumption that the national pay settlement will result in a zero pay award for most staff from April 2010.

4. TRANSPORT RELATED COSTS

Running Costs and Insurances

4.1 At this stage it is projected that savings of £0.080m will be achieved from transport running costs, as a result of increases in fuel costs not being as much as had been anticipated. This will need to be reviewed subject to volatility in fuel costs in the remainder of the financial year.

5. SUPPLIES AND SERVICES

Uniforms and Personal Protective Equipment

5.1 Members may recall that a previous decision was taken by the Authority (report RC/09/9 to Resources Committee 16 November 2009 refers) to implement the Integrated Clothing Project (ICP) as a replacement for the previous Personal Protective Equipment (PPE) contract which expired last year. In terms of the funding of this project it had been agreed that an amount of £0.357m would be set aside from an anticipated underspend against the 2009/2010 revenue budget, to part fund the total additional costs. In the event, the final outturn position for 2009/2010 did not provide sufficient underspend for this total amount to be set aside, and only £0.066m was able to be set aside, leaving the project £0.291m short of its implementation plan.

5.2 The projections included in this report reflect this additional cost of £0.291m on the basis that there will be sufficient underspend in this financial year to cover this cost. Should this position change in future forecasts then consideration will need to be given as to whether the original implementation plan can be afforded in this financial year.

6. INCOME

Grants and Reimbursements

6.1 As is identified in paragraph 3.3 of this report the amount of New Burdens grant will be less than budgeted as the grant will now be paid direct to the LACC.

7. CONTRIBUTION TO RESERVES

7.1 At this stage there are no recommendations made as to the transfer of any monies to reserves as it is too early in the financial year, and forecasts will be subject to change, particularly around retained pay costs. However, looking ahead, and given the scale of budget reductions that might be required in 2011/2012, it is my view that the Authority should be seeking to increase reserve balances as much as possible in anticipation of future budget reductions.

7.2 With this in mind all budget managers across the organisation have already been asked to consider the impact to their budgets of reductions of 10% in the current financial year, with a view to setting those savings aside in the Authority reserve balances. Any reductions will need to risk assessed against the impact of reducing spend in those identified areas.

7.3 The outcome of this exercise, in terms of the amount of savings that are identified will be reported to the next meeting of Resources Committee to be held in October 2010.

8. SUMMARY OF REVENUE SPENDING

8.1 It has to be emphasised that the current forecast for an underpsend of £0.486m is made very early in the financial year and will inevitably change as we move further into the year and some of the assumptions made are more quantifiable. The outcome of 2010 pay negotiations, for instance, may change the overall position.

8.2 Further updates of forecast spending will be provided at each future meeting of Resources Committee, together with any proposed actions in relation to significant variations from budget

9. SECTION B – CAPITAL PROGRAMME 2010/2011 AND PRUDENTIAL INDICATORS

9.1 The capital programme levels for the years 2010/2011 to 2012/2013 were agreed at the budget meeting held on 19 February 2010 (Report DSFRA/10/2 refers). Those levels were set as £6.847m for 2010/11, £4.069m for 2011/12 and £4.069m for 2012/13. Appendix C to this report provides a summary of a revision to this programme. It should be emphasised that this revision does not represent an increase in the overall capital programme; it merely reflects further slippage in spending in 2009/2010 of £0.404m, which is required to be carried forward to 2010/2011 to provide funding for the completion of those projects. Table 1 below illustrates that the overall programme, including spending in 2009/2010 has remained at the same total of £25.096m.

TABLE 1	**Estates**	**Fleet and Equipment**	**Total**
	£000	**£000**	**£000**
ORIGINAL PROGRAMME			
2009/2010 (forecast spend)	5.144	4.967	10.111
2010/2011	3.241	3.606	6.847
2011/2012	1.750	2.319	4.069
2012/2013	1.750	2.319	4.069
Total 2009/10 TO 2012/13	**11.885**	**13.211**	**25.096**
REVISED PROGRAMME			
2009/2010 (actual spend)	5.144	4.563	9.707
2010/2011	3.241	4.010	7.251
2011/2012	1.750	2.319	4.069
2012/2013	1.750	2.319	4.069
Total 2009/10 to 2012/13	**11.885**	**13,211**	**25.096**

9.2 A this stage of the financial year spending in 2010/2011 is profiled to be within the overall programme level of £7.251m. However, in light of the economic climate and the anticipated reductions in future revenue budgets, a review of those projects not yet started in 2010/2011 is currently underway with a view to deferring the start date of some projects into 2011/2012. It is anticipated that the outcome of this review will be to reduce capital spending against the 2010/2011 programme level of £7.251m, resulting in reduced debt charges costs in 2010/02011 and 2011/2012. This review will include a risk assessment of each project against the criteria used in deciding which projects should be included in the capital programme, underpinned by the Property Asset Management Strategy, considered elsewhere on the agenda to this meeting.

9.3 The outcome of this assessment will be reported to the next meeting of the Capital Programme Working Party before coming back to this Committee at its next meeting in October 2010.

<u>Prudential Indicators (including Treasury Management)</u>

9.4 At the same time as setting its capital programme at the budget meeting in February 2010, the Authority also approved it’s Treasury Management Strategy (report DSFRA/10/13 refers), which included its prudential indicators, to demonstrate that this level of programme was affordable, prudent and sustainable. These indicators are required to be revised to reflect the revision to the capital programme as outlined in paragraph 9.1 above.

9.5 Further changes to these indicators are also required as a consequence of accounting changes introduced by the statutory requirement to produce the statutory Accounts under International Financial Reporting Standards (IFRS) from 1 April 2010. The Treasury Management Strategy report referred to above highlighted that once the work had been completed to identify the required changes, then it may be necessary to revise the agreed prudential indicators. Since that report it has been identified that there are two issues from IFRS that impact on the approved indicators;

- the Private Finance Initiative (PFI) contract in relation to Severn Park Training Centre at Avonmouth.

- The re-classification of three leasing contracts from ‘operating lease’ to ‘finance lease’.

9.6 The most significant change is in relation to the PFI contract, which is now required to be included in the balance sheet as an asset, with a corresponding liability to pay future rentals over the remaining 19 years of the contract. This outstanding liability as at 31 March 2011 is estimated to be £1.911m. Similarly, in relation to the three leases now re-classified as ‘finance leases’ an obligation to pay future rentals of £4k is also required to be included in the balance sheet.

9.7 The impact of these changes to the indicators is to increase the Capital Financing Requirement (CFR) in each year, with an increase of £1.915m in 2010/2011 to bring the revised CFR for 2010/2011 to £34.043m. The purpose of the CFR indicator is to illustrate the total Authority exposure to debt to finance capital investment. It should be emphasised that these changes do not have any cash impact to the Authority nor do they incur any additional liability over and above that already funded, it merely reflects changes to accounting requirements as a consequence of the need to comply with IFRS.

9.8 Appendix D to this report provides a summary of the revised prudential indicators to reflect the changes outlined above.

Minimum Revenue Provision (MRP) Statement 2010/2011

9.9 The Treasury Management Strategy Report considered at the budget meeting in February 2010, also included the approval of what is called the MRP Statement. It is a statutory requirement for the Authority to approve such a statement prior to the beginning of the financial year.

9.10 **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 and so such expenditure is spread over several years so as 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.

9.11 As a consequence of the changes to the accounts introduced by IFRS, namely leases and PFI schemes, it is necessary for the original MRP statement to be revised to incorporate these changes. A revised MPR statement for 2010/2011 is included as Appendix E (changes in *italics*).

Performance 2010/2011

9.9 In relation to forecast performance against the prudential indicators in 2010/2011, the key issue to report at this stage is that it not anticipated that any of the prudential indicators (as amended in this report) are to be breached. Actual external borrowing as at June 2010 stood at £29.580m, forecast to be £32.128m at 31 March 2011, which is well below the authorised limit for external debt of £38.640m (the absolute maximum that the Authority has agreed as affordable).

9.10 In relation to investment returns, at this early stage in the financial year it is forecast that the income target of £0.070m will be achieved. An average return of 0.81% has been achieved on new investments made to the end of June 2010, as compared to the average LIBID 7 day rate (industry benchmark), for the same period of 0.42%.

9.11 Current external borrowing has been taken at an average borrowing rate of 4.24%%. This compares with a target of 4.09% assumed in setting the debt charges budget for 2010/2011. Whilst at this time the actual performance is more than the budgeted target, as result of £3m additional borrowing undertaken early in the financial year (May 2010), it is forecast that this position will improve to within target by the end of the financial year.

10. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Efficiency Savings

10.1 At the time of writing this report the Authority is still in the process of publishing its Annual Efficiency Statement, which will set an efficiency target for the current financial year. Performance against this set target will be reported in future performance reports.

10.2 The merger of ex-Devon FRS and ex-Somerset FRS was forecast to deliver cumulative cashable savings of between £1.6m and £3.0m by the year 2012/2013. The current forecast is that total savings of £3.639m will have been achieved by the year 2012/2013, therefore exceeding the higher target of £3.0m.

Aged Debt Analysis

10.3 As at 30 June 2010, an amount of £55,860 was due from debtors relating to invoices that are more than 85 days old, equating to 23.41% of the total debt outstanding, which represents a slight improvement from the previous quarter (23.98%). Table x below provides a summary of all debt outstanding as at 30 June 2010.

	Total Value £	%age
Within 28 days	176,796	74.10%
29-56 days	3,335	1.40%
57-84 days	2,591	1.09%
Over 85 days	55,860	23.41%
Total Debt Outstanding as at 30 June 2010	**£238,582**	**100.00%**

10.4 It should be emphasised that of the total debt over 85 days of £55,860, an amount of £36,564 relates to two debtors who have been slow in making payments, which since the last meeting have been subject to a successful court order for payment to be made by instalments over a six month period. The first of those instalments was due on the 24th June 2010, which at the time of writing this report had not been paid, and is therefore subject to further discussion with our legal advisors as to the next course of action. If those two debtors were removed from our analysis then the ratio would drop to 9.55%, and therefore within our set target of 10%.

Payment of Supplier Invoices within 30 days

10.5 The ratio of supplier invoices paid within 30 days (or other agreed credit terms) as 30 June 2010 was 98.14%, compared to our target figure of 98.00%. It should also be noted that the majority of suppliers are now being paid within 20 days, as a result of a Service decision to make a temporary change to the payment period down from 30 days to 20 days during the period of the recession, to assist smaller suppliers, in particular, with their cash flow position.

KEVIN WOODWARD
Treasurer

FINANCIAL PERFORMANCE INDICATORS 2010/2011

Revenue Budget	Forecast £m	Target £m	Variance (favourable) /adverse %
Forecast Spending	74.649	75.135	(0.65)%
Efficiency Savings to be achieved in 2010/2011	TBD	TBD	-
Cumulative Efficiency Savings from Combination by 2012/1013	3.639	3.000	(0.21%)

Prudential Indicators and Treasury Management Indicators	Forecast £m	Target £m	Variance (favourable) /adverse %
Capital Expenditure	7.251	7.251	(0.00%)
Capital Financing Requirement (CFR) - borrowing - other long term liabilities	 32.128 1.915	 32.128 1.915	 (0.00%) (0.00%)
Authorised limit for external debt	34.043	40.488	(15.92%)
Operational boundary for external debt	34.043	37.276	(8.67%)
Investment Income	0.070	0.070	(0.00%)
	Actual (30 June 2010) %	Target %	Variance (favourable) /adverse %
Investment Return	0.81%	0.42%	(0.41%)
Cost of Borrowing	4.24%	4.09%	0.15%

Prudential Indicators and Treasury Management Indicators	Actual (30 June 2010) %	Target Upper limit %	Target Lower limit %	Variance (favourable) /adverse %
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	(30.00)%
Maturity structure of borrowing limits				
Under 12 months	3.52%	10.00%	0.00%	(6.48)%
12 months to 2 years	5.20%	15.00%	0.00%	(9.80)%
2 years to 5 years	9.62%	30.00%	0.00%	(20.38)%
5 years to 10 years	2.28%	50.00%	0.00%	(47.72)%
10 years and above	79.38%	100.00%	50.00%	(20.62)%

Other Indicators	Actual (30 June 2010) %	Target %	Variance (favourable) /adverse %
Aged Debt over 85 days	23.41%	10.00%	13.41%
Payments to Suppliers within 30 days	98.14%	98.00%	(0.14%)

Revenue Budget Monitoring Report 2010/11

Line No		2010/11 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 3 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	32,675	8,044	8,046	32,341	(334)
2	Retained firefighters	12,363	3,015	2,645	12,129	(234)
3	Control room staff	2,440	594	519	2,132	(308)
4	Non uniformed staff	9,099	2,275	2,201	8,971	(128)
5	Training expenses	1,134	284	506	1,134	-
6	Fire Service Pensions recharge	1,939	769	4,161	1,939	-
		59,650	**14,981**	**18,078**	**58,646**	**(1,004)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,074	269	216	1,074	-
8	Energy costs	648	162	50	648	-
9	Cleaning costs	384	96	36	384	-
10	Rent and rates	1,352	585	317	1,352	-
		3,458	**1,112**	**619**	**3,458**	-
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	698	175	41	698	-
12	Running costs and insurances	1,194	413	341	1,114	(80)
13	Travel and subsistence	1,513	278	249	1,513	-
		3,405	**866**	**631**	**3,325**	**(80)**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,678	669	645	2,678	-
15	Hydrants-installation and maintenance	142	35	(8)	142	-
16	Communications	1,181	295	549	1,181	-
17	Uniforms	1,061	265	142	1,352	291
18	Catering	249	62	47	249	-
19	External Fees and Services	160	40	86	160	-
20	Partnerships & regional collaborative projects	122	30	13	122	-
21	USAR Equipment	25	6	1	25	-
		5,618	**1,402**	**1,475**	**5,909**	**291**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	466	150	86	466	-
23	Advertising	82	20	7	82	-
24	Insurances	356	234	158	356	-
		904	**404**	**251**	**904**	**0**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	638	132	134	638	-
		638	**132**	**134**	**638**	**0**
	CAPITAL FINANCING COSTS					
26	Capital charges	4,969	255	185	4,969	-
27	Revenue Contribution to Capital spending	0	0	0	0	-
		4,969	**255**	**185**	**4,969**	**0**
28	**TOTAL SPENDING**	**78,642**	**19,152**	**21,373**	**77,849**	**(793)**
	INCOME					
29	Treasury management investment income	(70)	(18)	(10)	(70)	-
30	Grants and Reimbursements	(2,340)	(585)	(1,066)	(2,033)	307
31	Other income	(1,029)	(257)	(237)	(1,029)	-
32	Internal Recharges	(68)	(17)	(10)	(68)	-
33	Contribution to/from Reserves	0	0	0	0	-
34	**TOTAL INCOME**	**(3,507)**	**(877)**	**(1,323)**	**(3,200)**	**307**
35	**NET SPENDING**	**75,135**	**18,275**	**20,050**	**74,649**	**(486)**

Proposed Capital Programme (2010/11 to 2012/13)							
Previous years spend (£000)	2009/2010 predicted outturn (£000)	Item	PROJECT	2010/11 (£000)	2011/12 (£000)	2012/13 (£000)	Total project costs (Exeter major projects) (£000)
			Estate Development				
2,250	1,396	1	Exeter Middlemoor	44			3,690
1,084	1,790	2	Exeter Danes Castle	169			3,043
	71	3	SHQ major building/USAR major project (slippage 2008/09)	135			
	0	4	Major building works	0	1,000	1,000	
	1,538	5	Minor improvements & structural maintenance (including 2008/09 slippage)	2,761	750	750	
	173	6	Welfare facilities 2009/10	127			
	34	7	Diversity & equality	0			
	35	8	USAR works	0			
	107	9	Other Building Works (funded from Earmarked Reserves)	5	0	0	
	5,144		**Estates Sub Total**	3,241	1,750	1,750	
			Fleet & Equipment				
	4,069	9	Appliance replacement	2,061	2,119	2,119	
	142	10	Specialist Operational Vehicles	1,163			
	190	11	Vehicles (funded from Revenue)	0			
	137	12	Equipment	634	200	200	
	25	13	Asset Management Plan (Miquest) software	152			
	4,563		**Fleet & Equipment Sub Total**	4,010	2,319	2,319	
	9,707		**Overall Capital Totals**	7,251	4,069	4,069	
			Programme funding				
	8,298		Main programme	5,926	4,069	4,069	
	215		Revenue funds	0	0	0	
	914		Grants	1,193	0	0	
	280		Earmarked Reserves	132	0	0	
	9,707			7,251	4,069	4,069	

REVISED PRUDENTIAL INDICATORS	**2010/2011 £m estimate**	**2011/2012 £m estimate**	**2012/2013 £m estimate**
Capital Expenditure			
Non - HRA	7.251	4.069	4.069
HRA (applies only to housing authorities)	0	0	0
TOTAL	7.251	4.069	4.069
Ratio of financing costs to net revenue stream			
Non - HRA	3.80%	4.38%	4.63%
HRA (applies only to housing authorities)	0%	0%	0%
Capital Financing Requirement as at 31 March			
Non – HRA			
borrowing	32.128	33.816	35.428
other long term liabilities	1.915	1.885	1.848
HRA (applies only to housing authorities)	0	0	0
TOTAL	34.043	35.701	37.276
Annual change in Cap. Financing Requirement			
Non – HRA	3.940	1.658	1.575
HRA (applies only to housing authorities)	0	0	0
TOTAL	3.940	1.658	1.575
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase/(decrease) in council tax (band D) per annum	(£0.25)	(£0.10)	£0.00
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£000	**£000**	**£000**
Authorised Limit for external debt -			
borrowing	38.640	40.220	41.637
other long term liabilities	1.848	1.837	1.826
TOTAL	40.488	42.057	43.463
Operational Boundary for external debt -			
borrowing	35.428	36.837	38.094
other long term liabilities	1.848	1.837	1.826
TOTAL	37.276	38.674	39.920

	upper limit %	lower limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2009/10		
Under 12 months	10%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	50%

DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY

REVISED MINIMUM REVENUE PROVISION (MRP) STATEMENT 2010/2011

Supported Borrowing

The MRP will be calculated using the regulatory method (option 1). MRP will therefore be calculated using the formulae in the old regulations, since future entitlement to RSG in support of this borrowing will continue to be calculated on this basis.

Un-Supported Borrowing (including un-supported borrowing prior to 1st April 2008)

The MRP in respect of unsupported borrowing under the prudential system will be calculated using the asset life method (option 3). The MRP will therefore be calculated to repay the borrowing in equal annual instalments over the life of the class of assets which it is funding. The repayment period of all such borrowing will be calculated when it takes place and will be based on the finite life of the class of asset at that time and will not be changed.

Finance Lease and PFI
In the case of Finance Leases and on balance sheet PFI schemes, the MRP requirement is regarded as met by a charge equal to the element of the annual charge that goes to write down the balance sheet liability. Where a lease of PFI scheme is brought, having previously been accounted for off-balance sheet, the MRP requirement is regarded as having been met by the inclusion of the charge, for the year in which the restatement occurs, of an amount equal to the write-down for the year plus retrospective writing down of the balance sheet liability that arises from the restatement. This approach produces an MRP charge that is comparable to that of the Option 3 approach in that it will run over the life of the lease or PFI scheme and will have a profile similar to that of the annuity method.

MRP will normally commence in the financial year following the one in which the expenditure was incurred. However, when borrowing to construct an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone the beginning to make MRP until that year. Investment properties will be regarded as becoming operational when they begin to generate revenues.