Appendix B (January 2017 Update)

Minimum Revenue Provision Policy

1. What is a Minimum Revenue Provision (MRP)?
The Minimum Revenue Provision is a charge that Councils which are not debt free are required to make in their accounts for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt). The underlying debt is needed to finance the capital programme. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure, allowing borrowing to be matched to asset life. Setting aside an amount for the repayment of debt in this manner would then allow for future borrowing to be taken out to finance the asset when it needs replacing at no incremental cost. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and is now determined by Guidance.

2. Statutory duty
Statutory Instrument 2008 no. 414 s4 lays down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146 (as amended).

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.

The share of Housing Revenue Account CFR is not subject to an MRP charge.

3. Government Guidance
Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

The four recommended options are thus:

Option 1: Regulatory Method
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity).

This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the Supported Capital Expenditure (SCE) annual allocation.

Option 2: Capital Financing Requirement Method
This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

This is not applicable to the Council as it is for existing non supported debt

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -
Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:
equal instalment method – equal annual instalments,
annuity method – annual payments gradually increase during the life of the asset.

This is the preferred method as it allows costs to be spread equally over the life of the asset.

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

This method is not favoured by the Council as if the asset is subject to a downturn in value, then that amount would have to be written off in that year, in addition to the annual charge

4. Date of implementation
The previous statutory MRP requirements ceased to have effect after the 2006/07 financial year. Transitional arrangements included within the guidance no longer apply

for the MRP charge for 2009/10 onwards. Therefore, options 1 and 2 should only be used for Supported Capital Expenditure (SCE). The CLG document remains as guidance and authorities may consider alternative individual MRP approaches, as long as they are consistent with the statutory duty to make a prudent revenue provision.

Minimum Revenue Provision Policy Statement 2017/18

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2009/10. It will assess its MRP for 2017/18 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

From 2013/14, the council has not had a fully funded capital programme, and although there has not been a need to borrow in full externally, due to the use of investment balances, it will be necessary to make adequate provision for the repayment of debt in the form of Minimum Revenue Provision in 2017/18 for the unfunded element of 2013/14 and 2014/15 expenditure. The preferred method for existing underlying borrowing is Option 3 (Asset Life Method) whereby the MRP will be spread over the useful life of the asset.

The Council is reviewing its Property Investment Strategy and considering making an investment of £15Million in property funded from prudential borrowing. Should the £15Million investment be approved the MRP on the underlying need to borrow will be calculated under Option 3 (Asset Life Method) and the annuity method which links the MRP to the flow of benefits from the properties.

The forecast annual MRP for 2016/17 is £653,630 and for 2017/18 is £654,374 based on the January 2017 Capital Strategy Update having the need to borrow for the General Fund. The borrowing relates to the 10 year plan for the garage estates which requires a total of £6,757,650 prudential borrowing over the period 2017/18 to 2020/21.