

POLICY ON MINIMUM REVENUE PROVISION (MRP)

1.0 BACKGROUND

Local authorities are required to make a minimum repayment of outstanding debt. Regulations require that local authorities determine their own policy. Associated guidance requires that only full Council can determine the policy.

2.0 GUIDANCE ON MINIMUM REVENUE PROVISION (MRP)

The main stipulation included in the regulations in determining a policy is that it ensures that the repayments are prudent. The Local Government Act 2003, as amended, requires that the policy has regard to any guidance issued by the Secretary of State.

Revised guidance issued by the Secretary of State on 11 March 2010 to deal with some accounting changes continues the four options to calculate MRP, which can be combined as authorities see fit, in order to reach a prudent level of provision. The options are as follows;

Option 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the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the adjustment should normally continue to have the value attributed to it by the authority in the financial year 2004-05.

Option 2: Capital Financing Requirement (CFR) Method

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset.

Option 4: Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

From 2010/11 the Council adopted option 2 for capital expenditure from borrowing or a credit arrangement prior to 1 April 2010 and option 3 for capital expenditure financed from borrowing or a credit arrangement after that date as its policy.

The CFR is the notional amount borrowed to finance capital and is calculated from the Council's balance sheet and represents past expenditure that has not been funded from capital receipts, grants or revenue contributions. MRP is the charge to the General Fund as the repayment of principal on this notional borrowing and will reduce the CFR for future years.

3.0 POLICY ON MRP

That MRP is calculated as follows;

- For capital expenditure financed by an actual or implied credit arrangement then it is equivalent to the value to which the liability for that arrangement is reduced.
- For capital expenditure that is initially financed by borrowing or credit arrangement but is due to be partly or fully financed by a future capital receipt then it is calculated by reference to the expected future net amount to be financed by borrowing or credit arrangement. If the actual amount of the capital receipt applied is different to that expected then it is recalculated by reference to the revised net amount.
- For capital expenditure financed from borrowing or a credit arrangement on the basis of generating future income or revenue saving then it will be calculated such that there is no net additional cost to the Council either as set out in the project approval or as otherwise determined by the S151 Officer. In any event the repayment period cannot be greater than the expected life of the asset.
- For capital expenditure not falling within any of the categories above and financed from borrowing or a credit arrangement prior to 1 April 2010 it is calculated at 4% of CFR at the end of the preceding financial year.
- For capital expenditure not falling within any of the categories above and financed from borrowing or a credit arrangement from 1 April 2010 is determined by reference to the life of the asset.