MINIMUM REVENUE PROVISION (MRP) POLICY

The Council is required to pay off an element of the accumulated General Fund borrowing requirement used to fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. Four primary options are set out to council's, however this does not preclude other options so long as there is a prudent provision.

The Council is recommended to approve the following MRP Statement:

Capital Expenditure incurred before 1st April 2008 or future SCE

From 2015/16, for capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, MRP will be charged on a 2% straight line basis, net of 'Adjustment A'. This ensures that the debt will be repaid within 50 years. Previously, the Council charged MRP in line with former DCLG Option 1. This option provided for an approximate 4% reduction in the supported borrowing need (CFR) each year.

Capital Expenditure incurred after 1st April 2008

From 1 April 2008 for all unsupported borrowing except those separately listed in this Policy (including PFI and finance leases) the MRP policy will be either:

- Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (known as Option 3);

- Depreciation method – MRP will follow standard depreciation accounting procedures (known as Option 4);

These options provide for a reduction in the borrowing need over the approximate asset's life.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

MINIMUM REVENUE PROVISION (MRP) POLICY cont.

Housing Revenue Account (HRA)

There is no requirement on the HRA to make a minimum revenue provision. However as a result of HRA reforms the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, transitional regulations allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years.

Repayments included in annual PFI or finance leases are applied as MRP.

Assets for Future Development

For assets acquired for future development, where it is anticipated that the future sale proceeds of the asset will offset the cost, the repayment of the debt may be funded from future capital receipts arising as an alternative prudent provision (thus negating the requirement to provide for MRP).

This approach will be reviewed on an annual basis, to ensure that anticipated capital receipts continue to offset the cost of the debt.

Local Authority Mortgage Scheme (LAMS)

For authorities who participate in the Local Authority Mortgage Scheme (LAMS) using a cash backed option, the mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party.

The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The deposit would be returned in full at maturity, with interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly.

As this constitutes a temporary (5 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.