

Minimum Revenue Provision

D1 Introduction

D1.1 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) requires local authorities each year to calculate and set aside some of their general fund revenue as provision for debt repayment. This is known as the Minimum Revenue Provision (MRP):

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

D1.2 The definition of “prudent provision” is not defined and is a matter for the authority to determine. However, revised guidance has been issued by MHCLG, to which authorities, by virtue of Section 21 of the Local Government Act 2003 (as amended), are obliged to “have regard”.

D2 Guidance

D2.1 Paragraph 20 of the guidance states:

“The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover the gap between the CFR and grant income/capital receipts. In doing so, local authorities can align the period over which they charge MRP to one that is commensurate with the period over which the capital expenditure provides benefit.”

D2.2 This general aim does not stipulate a minimum amount of provision to be made in any particular year, providing that the broad aims above are met. The Guidance exemplifies four different annual repayment profiles and permits authorities to consider their own repayment profiles.

D2.3 The profile will dictate the length and shape of the repayment – it will not change the amount repayable. That remains the same under any scenario.

D3 Recommendations

D3.1 It is recommended that the MRP Policy outlined in section D4 is adopted, materially unchanged from that agreed on 28 February 2018.

D4 MRP Policy

Supported Borrowing

- D4.1 The authority will calculate MRP on historic debt based on the Capital Financing Requirement (CFR) as at 31 March 2015. This incorporates pre 2008 borrowing and Supported Capital Expenditure since 2008.
- D4.2 The authority will provide for 2% of the CFR as at 31 March 2015, fixed at the same cash value so that the whole debt is provided for after 50 years.

Prudential Borrowing

- D4.3 For borrowing incurred on schemes described by the Government as Prudential Borrowing, MRP will be calculated over the estimated remaining useful life applicable to the expenditure (usually the useful life of the asset it is financing) using the annuity repayment method (in accordance with Option 3 of the CLG Guidance on MRP) – like many domestic mortgages.
- D4.4 This means that MRP will be calculated on an annuity basis over the estimated life of the asset and prevailing discount rates.
- D4.5 Estimated life periods are established as 40 years for land and buildings and 7 years for equipment and vehicles, with discount rates set at the PWLB annuity rate on the date the asset becomes operational.
- D4.6 In accordance with the provisions in the guidance, MRP will be first charged in the financial year following the one in which the entire asset to which the debt relates, becomes fully operational or completion of any enhancement works.

Finance Leases and Service Concessions (e.g. PFI)

- D4.7 For assets acquired by finance leases, including leases and PFI brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Statutory Capitalisations

D4.8 For expenditure which does not create a fixed asset, but is statutorily capitalised and subject to estimated life periods that are referred to in the guidance, these estimated periods will generally be adopted by the authority.

Other

D4.9 The authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate. Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent and / or to secure value for money, at the discretion of the Chief Finance Officer, whom may approve that such debt repayment provision may be made from capital receipts or from revenue provision, as is appropriate.