APPENDIX 3

Annual Minimum Revenue Provision Statement

Introduction

The rules for Minimum Revenue Provision (MRP) were set out in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. These rules have now been revised by the Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2008.

Authorities are required to submit to a meeting of their Council an annual statement of their policy on making MRP.

Background

Each year the Council borrows money in order to finance some of its capital expenditure. The loans taken out for this purpose, unlike a mortgage which is repaid in part each month, are fully repayable at a future point in time. The repayment date is chosen to secure the best financial result for the Council.

The concept of Minimum Revenue Provision was introduced in 1989 to prescribe a minimum amount which must be charged to the revenue account each year in order to make provision to meet the cost of repaying that borrowing.

The detailed rules and formulae to be used in the more recent method of calculation were laid down in the Regulations mentioned in the introduction section.

This system has now been radically revised and requires an annual statement to full Council setting out the method the Council intends to adopt for the calculation of MRP.

Issues and/or Options

Under the old regulations Local Authorities were required to set aside each year, from their revenue account an amount that, in simple terms equalled approximately 4% of the amount of capital expenditure financed by borrowing. Local Authorities had no freedom to exercise any discretion over this requirement.

The amendment regulations introduce a simple duty for an authority each year to set aside an amount of MRP which it considers to be ‘prudent’. The regulation does not define a ‘prudent provision’ but the MRP guidance makes recommendations to authorities on the interpretation of that term.

The MRP guidance document is a statutory document and authorities are obliged by section 21 of the Local Government Act 2003 to have regard to such guidance. The guidance aims to provide more flexibility and in particular for development schemes it is possible to have an MRP “holiday” for assets or infrastructure under construction.

Officers have been in discussion with the external auditors on accounting for the wholly owned housing company, Gloriana. This has given officers an additional view of how to account for MRP on projects where a capital receipt is expected. It has been accepted that there is not a requirement to set aside MRP for loans, through prudential borrowing, that are taken by the Council for onward lending to Gloriana. The basis of this decision is that Gloriana will be making repayments at some point in the future, through either the disposal of properties or rental streams, and that these be set aside for debt repayment purposes. This approach could also be utilised for other schemes, especially in terms of regeneration and economic development purposes with Purfleet regeneration being such an example.

The operative date of the change was 31 March 2008, which means the new rules have applied since the financial year 2007/08.

The Annual MRP Statement

As stated above, Local Authorities are required to prepare an annual statement of their policy on making MRP for submission to their full Council. This mirrors the existing requirements to report to the Council on the Prudential borrowing limits and Treasury Management strategy. The aim is to give elected Members the opportunity to scrutinise the proposed use of the additional freedoms conferred under the new arrangements. The statement must be made before the start of each financial year.

The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year in question for the borrowing that is to take place in that financial year. If it is ever proposed to vary the terms of the original statement during any year, a revised statement should be put to Council at that time.

The guidance includes specific examples of options for making a prudent provision. The aim of this is to ensure that the provision to repay the borrowing is made over a period that bears some relation to the useful life of the assets in question or where a capital receipt will be received to repay the debt in part or in full.

The current approach to the calculation of MRP is that the total of all supported borrowing is written down over a period of 50 years on an equal annual instalment basis and that any unsupported borrowing is written down over the expected life of the asset on an annuity calculated basis.

Proposals

To amend the Minimum Revenue Provision Policy Statement for 2015/16 and also confirm the policy for 2016/17 as follows:

- In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 the Council's policy for the calculation of MRP in 2016/17 shall be that the Council will set aside an amount each year which it deems to be prudent and appropriate, having regard to statutory requirements and relevant guidance issued by DCLG.
- The Council will also consider the use of capital receipts to pay down any MRP incurred.

The policy will be reviewed on an annual basis.