MINIMUM REVENUE PROVISION

The Local Government and Public Involvement Act 2007 provided a new power to the Secretary of State to issue guidance on accountancy practice rather than through the formal issue of Regulations through statute.

The first guidance issued under this new power relates to Minimum Revenue Provision (MRP). This is the amount which local authorities provide for the repayment of their borrowings and whilst this Council is debt free and therefore needs to make no provision, it is still required to meet the requirements of the guidance in approving a policy statement on making MRP.

Under the guidance authorities will be required to prepare an annual statement in respect of their policy on making MRP. This must be submitted to Full Council and will form part of the annual prudential indicator report.

The guidance provides a number of options for making a 'prudent provision', this is to say that the provision for the repayment of borrowing used to finance the acquisition of an asset should be made over a period bearing some relation to that over which the asset provides a service to the authority.

The options for prudent provision are as follows:
Option 1 – Regulatory Method
Where debt is supported by Revenue Support Grant (RSG), authorities will be able to continue using the formulae used in the current regime, since the supported borrowing element of the RSG is also calculated this way.

Option 2 – CFR Method
This method is based upon 4% of an authority's non housing CFR (capital financing requirement) at the end of the preceding financial year. Where the CFR is negative or nil, no MRP will be required as is the case at present.

Option 3 – Asset Life Method
Here equal annual instalments of MRP will be made over the estimated life of asset financed by borrowing. Under this method the concept of an MRP holiday makes its debut. This provides the ability for an authority to defer MRP on a newly constructed building or infrastructure asset until the asset comes into service.

Option 4 – Depreciation Method
Using this approach will require an authority to charge MRP in accordance with the standard rules for depreciation accounting. As with option 3 the MRP holiday will be available for assets yet to be brought into service.

It is anticipated that options 1 & 2 will only be used where capital expenditure is incurred prior to 1st April 2008 and where capital expenditure is incurred on or after that date which the authority is satisfied forms part of its supported capital expenditure. Options 3 and 4 would be used in relation to all capital expenditure incurred after the 1st April which is financed by borrowing or credit arrangements.

In this Council's case where all of the capital expenditure is supported by financing either from Government grant or capital receipts and where the CFR is nil option 2 applies and no MRP is required as is the present case.

It is therefore recommended that option 2, the CFR method, is adopted as the Council's annual policy on making MRP for 2012/13.

Note - The capitalised element of the leases for the Capswood offices and the embedded leases for the refuse vehicles within the refuse contract is written off to revenue on an annual basis.