Minimum Revenue Provision (MRP) Policy

1. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is funded by Council Tax.

2. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument (SI) 3146/2003) requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

3. The Council is recommended to approve the following MRP Statement:

   a. For capital expenditure incurred before 1 April 2008, MRP will be calculated using Option 2 (the 'CFR Method') of the CLG Guidance on MRP. Under this option MRP will be 4% of the closing non-HRA CFR for the preceding financial year.

   b. For all capital expenditure incurred after 1 April 2008 financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon the asset life method under Option 3 of the DCLG Guidance. In applying 'Option 3':

      - In accordance with the statutory guidance, commencement of MRP will be deferred until the financial year following the one in which the asset becomes operational.

      - the estimated useful lives of assets used to calculate MRP should not exceed a maximum of 50 years. Where a local authority has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years it can use the life suggested by its professional advisor.

      - if no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life should be taken to be a maximum of 50 years. But if there is a structure on the land where a local authority has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for longer than 50 years, that same life estimate will be used for the land.

- for expenditure capitalised by virtue of a capitalisation direction or regulation 25(1) of the 2003 regulations, the ‘asset’ life should equate to the value specified in the statutory guidance

c. A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts.

d. 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.

e. Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.

f. Under Treasury Management best practice the Council may decide to defer borrowing up to the capital financing requirement (CFR) and use internal resources instead. Where internal borrowing has been used, the amount chargeable as MRP may be adjusted to reflect the deferral of actual borrowing.