TREASURY MANAGEMENT STRATEGY 2017/18

ANNEX D – Policy on Minimum Revenue Provision

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1. Introduction

1.1 Local authorities are required to set aside 'prudent' revenue provision for debt repayment (MRP) where they have used borrowing or credit arrangements to finance capital expenditure. Statutory Guidance covering Minimum Revenue Provision (MRP), published in February 2012 by the Department for Communities and Local Government (DCLG) sets out various options and boundaries for calculating prudent provision.

1.2 Whilst 'prudent provision' is not specifically defined, the guidance suggests that debt ought to be repaid over a period that is either commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant, it is reasonably commensurate with the period implicit in the determination of the grant.

1.5 There are four options set out in the statutory guidance for determining the MRP:

Option 1 - Regulatory Method
Option 2 - The Capital Financing Requirement (CFR) Method
Option 3 - Asset Life Method (the MRP is determined by reference to the life of the asset)
Option 4 - Depreciation Method (MRP is equal to the provision required under depreciation accounting).

2. Minimum Revenue Provision (MRP) Policy Statement for 2017/18 is as follows

2.1 For all supported capital expenditure incurred prior to 1st April 2008 and for future supported capital expenditure, the MRP will be based on the 2% straight line method, before making an adjustment for £24.1m, which is the difference between debt calculated under the prudential code (as at 1st April 2004) and debt calculated under the previous 'statutory' capital controls regime which commenced on 1st April 1990.

2.2 For capital expenditure incurred after 1st April 2008 and financed by unsupported borrowing, the MRP will be based on option 3, the Asset Life Method. This method was already being used by the Council for capital expenditure financed by unsupported borrowing prior to the introduction of the 2008 Regulations and it is considered both appropriate and prudent to continue with it.

2.3 In exceptional circumstances MRP for capital expenditure incurred after 1st April 2008 and which is funded by unsupported borrowing can be calculated using the Annuity Method (a variation allowed under option 3 of the 2008 Regulations). However, this method is only suitable for particular types of capital expenditure projects where the benefits are expected to increase in later years or where the income stream generated by the new project mirrors the Annuity profile. It may be particularly attractive in connection with projects promoting regeneration or administrative efficiencies where revenues will increase over time. This method may only be used if it receives approval by the Treasury Management Panel.

2.4 The above policy will ensure that the Council satisfies the requirement to set aside a prudent level of MRP.