

TREASURY MANAGEMENT STRATEGY 2015/16

ANNEX D – Policy on Minimum Revenue Provision

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1. Minimum Revenue Provision Policy Statement

- 1.1 The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue Account each year for the repayment of debt (capital expenditure financed by borrowing and credit arrangements). The Minimum Revenue Provision charge is the means by which capital expenditure which has been funded by borrowing is paid for by council taxpayers.
- 1.2 The scheme of Minimum Revenue Provision was set out in former regulations 27, 28 and 29 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. This system was radically revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 in conjunction with Communities and Local Government's Minimum Revenue Provision statutory guidance and also complies with the requirements of the Department for Communities and Local Government Investment Guidance issued in 2009 along with draft regulations in respect of Minimum Revenue Provision and International Financial Reporting Standards (IFRS).
- 1.3 The 2008 Regulations replaced the detailed rules with a simple duty for an authority each year to make an amount of Minimum Revenue Provision which it considers prudent. The term "prudent provision" is not defined within the regulation; however, the statutory guidance includes specific examples of options for making "prudent provision".
- 1.4 The broad aim of prudent provision is to ensure debt is repaid over a period that is either reasonably equal with that over which the capital expenditure provides benefit, or in the case of borrowing supported by Government Revenue Support Grant reasonably equal with the period implicit in the determination of that grant.
- 1.5 There are four options set out in the statutory guidance for determining the Minimum Revenue Provision:
- Option 1 - Regulatory Method
Option 2 - The Capital Financing Requirement (CFR) Method
Option 3 - Asset Life Method (the Minimum Revenue Provision is determined by reference to the life of the asset)
Option 4 - Depreciation Method (Minimum Revenue Provision is equal to the provision required under depreciation accounting).
- 1.6 The Minimum Revenue Provision Policy for 2015/16 is as follows:
- 1.6.1 For all supported capital expenditure incurred prior to 1st April 2008 and for future supported capital expenditure, the Minimum Revenue Provision will be based on the Regulatory Method (option 1), as this minimises the annual charge to the General Fund. This charge will be supplemented by voluntary Minimum Revenue Provision (based on the useful asset life) in respect of those assets which have been financed by unsupported borrowing (sometimes known as Prudentially funded assets) because it is considered prudent to adopt this approach.
- 1.6.2 For capital expenditure incurred after 1st April 2008 and financed by unsupported borrowing, the Minimum Revenue Provision 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.

1.6.3 In exceptional circumstances Minimum Revenue Provision 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 to 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.

1.7 The above policy will ensure that the Council satisfies the requirement to set aside a prudent level of Minimum Revenue Provision