

SOUTHEND-ON-SEA BOROUGH COUNCIL

REVISED MINIMUM REVENUE PROVISION POLICY 2015/16

1 Background

- 1.1 The Minimum Revenue Provision (MRP) is an amount to be set aside for the repayment of debt. In previous years the amount of the charge had been defined by statute.
- 1.2 The Chartered Institute of Public Finance & Accounting (CIPFA) defines MRP as the 'minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government & Housing Act 1989'.
- 1.3 Under previous regulations all MRP was a 4% charge in respect of the amount of non-HRA Capital Financing Requirement (CFR). The CFR represents the cumulative amount of borrowing that has been incurred to pay for the Council's capital assets less amounts that have been set aside for the repayment of debt over the years. The MRP charge for any one financial year is applied to the CFR calculated as at the end of the previous financial year.

2 Changes to MRP regulations

- 2.1 Under the new regulations the detailed rules have been replaced with a general duty for a local authority to make an MRP charge to revenue which it considers to be prudent. Responsibility has also been placed upon the full Council to approve an annual MRP policy statement.
- 2.2 Under the 2003 regulations there were five options a local authority could adopt as a method for calculating their MRP;

Option 1 – The regulatory method; applying the statutory formula set out in the 2003 regulations

Option 2 – CFR Method: multiplying the CFR at the end of the preceding financial year by 4%

Option 3a – Equal instalment method; amortising expenditure equally over an estimated useful life

Option 3b – Annuity method; takes account of the time value of money

Option 4 – Depreciation method; charges to revenue based on depreciation calculation

2.3 The new regulations for MRP applied from the financial year 2007/08 whereby option 1 at this point was revoked. A policy statement regarding the 2015/16 year should be approved before 31st March 2015.

2.4 It is recommended that Southend-on-Sea Borough Council continues with its current policy that has been in operation since 2007/08 of:

Supported Borrowing – Option 2 CFR method

Unsupported Borrowing – Option 3a – Equal Instalment method

3 Duration of the Policy Statement

3.1 This Minimum Revenue Provision Statement covers the 2015/16 financial year.

4 Minimum Revenue Provision Policy

4.1 The amount of MRP chargeable for 2015/16 will be applied at 4% to all:

- Capital expenditure incurred in the years before the start of this new approach
- New capital expenditure financed by supported borrowing that causes an increase in the CFR up to 31st March 2015.

4.2 The amount of MRP chargeable for 2015/16 will be applied in equal annual instalments to any:

- Capital expenditure financed by long term unsupported borrowing (also referred to as Prudential Borrowing) that causes an increase in the CFR up to 31st March 2015.

The period over which it will be charged will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

4.3 No MRP for 2015/16 will be applied to:

4.3.1 Capital expenditure financed by unsupported borrowing that causes an increase in the CFR up to 31st March 2015 but has been taken out in the short term to bridge the timing difference between anticipated and actual capital receipts.

It is anticipated that capital receipts will be received to repay this borrowing. Therefore no MRP charge is required as there is already a prudent provision for repayment.

- 4.3.2 Capital expenditure financed by unsupported borrowing that causes an increase in the CFR up to 31st March 2015 but has been taken out in the short term to bridge the timing difference between the expenditure being incurred and the budgeted revenue contribution to capital outlay being applied.

It is anticipated that revenue contributions will be received to repay this borrowing. Therefore no MRP charge is required as there is already a prudent provision for repayment.

- 4.3.3 Capital expenditure financed by unsupported borrowing that causes an increase in the CFR up to 31st March 2015 but has been taken out in the short term to bridge the timing gap while grant conditions are being met and therefore the grant being applied to capital expenditure under International Financial Reporting Standards (IFRS).

It is anticipated that the grant conditions will be met therefore no MRP charge is required as there is already a prudent provision for repayment.

- 4.4 The amount of MRP chargeable for 2015/16 relating to finance leases will be such that the combined impact of the finance charge and MRP is equal to the estimated rentals payable for the year.
- 4.5 The amount of MRP chargeable for 2015/16 relating to capital expenditure financed by unsupported borrowing that has been taken out to finance invest to save schemes will either be applied in equal annual instalments or be matched to the repayment profile of the loan, as appropriate.