Fermanagh & Omagh District Council
Comhairle Ceantair Fhear Manach agus na hÓmaí

Minimum Revenue Provision Policy

Fermanagh and Omagh District Council

Minimum Revenue Provision (MRP) Policy

Background

Under Regulation 6 of the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011, Councils have a statutory requirement, to charge to its general fund, an amount of Minimum Revenue Provision (MRP) which it considers to be "prudent".

The regulations also state that authorities are required to prepare an annual statement of their policy on making MRP for approval by the Council.

What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which provide future service potential and have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. Financing of these assets can come from a variety of sources, such as Grants, Capital Receipts and Borrowing. In order to account for the repayment of the councils borrowing, irrespective of when the timing of loan receipts and payments might take place, the council will be making an annual prudent provision for repayment through a charge to the General Fund referred to as Minimum Revenue Provision (MRP).

The regulation does not define a 'prudent provision'. However, the Department of the Environment (DoE) has issued guidance on Minimum Revenue Provision for District Councils in Northern Ireland, which makes recommendations to authorities on the interpretation of that term. The guidance came into effect on 1 April 2012.

The Annual MRP Statement

Authorities are required to prepare an annual statement of their policy on making MRP for submission to their full Council by the prescribed date of 15 February each year. This mirrors other requirements in the Local Government Finance Act (Northern Ireland) 2011 to report on the Councils Prudential borrowing limit and investment policy. The aim is to give elected Members the opportunity to scrutinise the proposed use of the additional freedoms conferred under the new arrangements.

The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year in question. If it is ever proposed to vary the terms of the original statement during any year, a revised statement should be put to Council at that time.

The DoE guidance includes specific examples of options for making a prudent provision. The aim of this is to ensure that the provision for the borrowing which financed the acquisition of an asset should be made over a period that bears some relation to the life of that asset. Detailed below is a brief summary of each option.

Option 1 – Asset Life Method

Option 1 is to make prudent provision over the estimated life of the asset for which the borrowing is undertaken. This can be calculated using a straight line or annuity method and is generally viewed as being easier to apply.

Option 2 – Depreciation Method

This option means making MRP in accordance with the standard rules for depreciation accounting.

Under both options the estimated life of the asset should be determined in the year that MRP commences and not subsequently be revised. If no life can be reasonably attributed to an asset, such as freehold land, the life should be taken to be a maximum of 50 years.

Provision for borrowing will normally commence in the financial year following the one in which the expenditure is incurred. However, under option 1 the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. In the case of major projects this could be perhaps two or three years, possibly longer. There would be a similar effect under option 2 using the normal depreciation rules.

Existing Borrowing

Under the previous arrangements Councils charge to their general fund an amount of which is broadly equivalent to the amount of loans and leasing principal charges in any one year. The new guidelines do not provide any examples on how Councils should account for their existing debt under the new Finance Act. The only duty is "to charge to its general fund an amount of MRP which it considers prudent".

Capital spending funded by borrowing in 2016/17 will form the basis of MRP in 2017/18 as provision normally commences in the financial year following the one in which the expenditure is incurred as noted above.

MRP Policy

The Council will need to consider its calculation of the Capital Financing Requirement (CFR) when making an assessment of the level of MRP required. MRP should make provision for re-payment of the CFR over the medium term. The calculation of the CFR less any existing borrowing will result in a figure for internal borrowing, i.e. capital spend financed from the Councils existing resources. The internal borrowing will also need to be considered in the Councils assessment of MRP.

It is proposed to use option 1, the asset life method, for capital expenditure which is financed by borrowings. Therefore, the Minimum Revenue Provision Policy Statement for 2017/18 is as follows:

In accordance with the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011 the Council's policy for the calculation of MRP in 2017/18 will be the asset life method for borrowing following the introduction of MRP, and loan principal on borrowings made before the introduction of MRP.

Provision for borrowing will commence in the financial year following when the expenditure was incurred.

Based on this policy, an amount of £2,100,000 has been included in the Council's 2017/18 estimates in respect of MRP as follows:

	2017/18 £
Forecasted Principal Payment (on existing debt)	1,150,000
Forecasted Interest Payment (on existing debt)	510,000
MRP on New Borrowing	340,000
Interest on New Borrowing	100,000
TOTAL	2,100,000

The policy will continue to be reviewed on an annual basis.