MRP Policy Statement

The Prudential Code requires that all capital expenditure is financed by a credit to the Capital Adjustment Account. If funding is not immediately available then a capital financing requirement (CFR) arises.

Essentially the CFR has to be mitigated over time on a prudent basis by making a “minimum revenue provision”. This is a charge to the General Fund made from the “Adjustments between Accounting Basis and Funding Basis under Regulations” and the Capital Adjustment account. The Council is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

The Department of Communities and Local Government has issued regulations which require the Cabinet to approve **an MRP Statement** in advance of each year. A variety of options are open to councils, and auditors will be satisfied as long as there is a prudent provision. Members should also note that this is a real charge to both the General Fund and Housing Revenue Account and not just an accounting adjustment. We have no option but to make a prudent provision.

The Cabinet is therefore recommended to approve the following MRP Statement*:*

1. For capital expenditure incurred before 1 April 2008 the MRP policy will be:
   - **Based on CFR** – MRP will be based on the CFR, This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

2. From 1 April 2008 for all unsupported borrowing (including Public Finance Initiative (PFI)) the MRP policy will be*:*
   - **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

3. Finance lease will have their capital financing applied on a straight line basis over the life of the lease contract.

4. The Council makes no additional voluntary revenue provision.

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