Appendix 10

Hereford & Worcester Fire and Rescue Authority
Minimum Revenue Provision (MRP) Policy

Background

This is the amount charged every year to provide for the repayment of long term loans used to finance capital assets.

Under provisions of the Local Authorities (Capital Finance and Accounting) (England) Amendment) Regulations 2008, the FRA is required to "determine an amount of MRP which is considered to be prudent".

The FRA has a statutory requirement to determine an MRP policy prior to the start of the financial year.

Guidance

In considering a prudent MRP policy the FRA needs to take into account the statutory guidance provided by CLG, and the issue of affordability. The guidance states that "provision for the borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service" – the "Asset Life" method.

The guidance, however, reflects the fact that for short life assets there is a considerable difference between the revenue charge arising from an "Asset Life" method and the old 4% method.

Since the advent of the Prudential Code from 2004/05 the FRA has provided MRP for significant shorter life assets (i.e. vehicles) broadly on an "Asset life" basis (albeit commencing charges a year earlier than the new guidance required). Whilst this results in a greater charge than the 4% method required, the affordability of this more prudent approach was considered at the time as part of the Prudential Code Indicators.

Recommendation

To continue the policy already i.e.

1. All expenditure from 2008/09 onwards – MRP using an Asset life basis:
    - Buildings over 50 years – per depreciation policy
    - IT equipment over 5 years - reflecting average life
    - Other Equipment over 7 years – reflecting actual average usage within the FRS
    - Vehicles – on actual estimated life of each vehicle

2. Vehicle Expenditure before 2008/09 – MRP on a proxy Asset Life basis using original cost, less cumulative MRP, over the remaining useful life of the individual vehicle.

3. Expenditure before 2008/09, (other than vehicles) – MRP on a proxy Asset Life basis using original cost, less cumulative MRP over average asset life as above

This means that after a specified time (depending on the life expectancy of the individual asset) there will be no further charge to the Revenue Account for MRP in relation to these assets.