Appendix 9

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.

Prior to 2008/09 the calculation was determined by statute, but for 2008/09 onwards under the Local Authorities (Capital Finance and Accounting) (England) Amendment) Regulations 2008, the FRA is required merely to "determine an amount of MRP which is considered to be prudent".

Brief History

The MRP set by statute was based broadly on the gross amount of borrowing incurred for Capital purchases, the actual calculation being 4% of the borrowing, less the total of MRP from previous periods.

Following the relaxation of Capital Controls under the Prudential Code from 2004/05, the FRA has made additional Voluntary Revenue Provision (VRP) for expensive, relatively short life assets i.e. vehicles. This ensures that money is set aside to repay the loan over the life of the asset.

Statutory Requirement

- For 2008/09 the FRA must determine its MRP policy by 31st March 2009.
- For 2009/10 the FRA must determine its MRP policy by 31st March 2009.
- For future years the FRA must determine a MRP policy prior to the start of the financial year.

Going Forward

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

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 accumulative MRP, over the remaining useful life of the individual vehicle

   This amends the broadly similar existing policy, to be consistent with the new guidance and continues to ensure that the full cost of the loan is provided for over the life of the assets.

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

   This accelerates the MRP charge over that under the 4% method, but ensures that full provision is made over a finite period.