Grant Thornton

Minimum Revenue Provision ("MRP")

What is "MRP"?

Regulation 27 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003 No. 3146) introduced a "duty to make revenue provision". This required that during the financial year beginning 1 April 2004 and every subsequent financial year, a local authority shall charge to a revenue account a minimum amount ("minimum revenue provision") for that financial year. This "MRP" is in respect of the financing of capital expenditure incurred by the local authority in that year or in any financial year prior to that year.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008 No. 414) came into force on 31 March 2008. The 2008 Regulations introduced a requirement that local authorities determine an annual amount of MRP they consider to be "prudent".

In 2008 the then Department for Communities and Local Government published "Guidance on Minimum Revenue Provision" under Section 21(1A) of the Local Government Act 2003. In accordance with Section 21(1B) of the 2003 Act, local authorities are required to have regard to this statutory guidance. This statutory guidance has been updated from time to time and the guidance currently in force came into effect from 1 April 2019. A fifth edition of the guidance is due to take full effect from 1 April 2025.

How should MRP be calculated?

Statutory guidance requires that before the start of each financial year a local authority should prepare a statement of its policy on making MRP in respect of that financial year and submit it to full Council (or the closest equivalent) for approval. The statement should describe how the local authority proposes to discharge its duty to make "prudent" MRP during that year.

The statutory guidance outlines the underpinning principle of the local authority financial system, that all capital expenditure has to be financed either from capital receipts, capital grants or other contributions, or eventually from revenue income. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their Capital Financing Requirement ("CFR" is defined in the CIPFA Prudential Code). In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

The statutory guidance outlines possible methods of making prudent provision. However, the guidance is clear that this does not rule out or otherwise preclude a local authority from using an alternative method, should it decide that is more appropriate. The statutory guidance is clear that MRP cannot be a negative amount and could only be nil in certain limited circumstances.

Local authorities are permitted to vary the methodologies that they use to make prudent provision during the year, but if they do so they should present a revised MRP statement to the next full Council or equivalent. Where an authority changes the method it uses to calculate MRP, the new method(s) should be based on the residual CFR at the point the change in method is made (i.e. it should not be applied retrospectively).

Who is responsible for determining MRP?

A local authority's chief finance officer and the members of a local authority have responsibilities in relation to the calculation and charging of MRP.

Section 25 of The Local Government Act 2003 requires that, in discharging the budget requirement responsibilities of The Local Government Finance Act 1992, the chief finance officer of a local authority must report to it on both the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves. A local authority must have regard to this report when making decisions about its budget.

The approval of MRP is covered by the authority's annual MRP statement, the revenue budget and also option appraisal and decisions regarding the affordability of individual capital projects.

The resultant annual MRP charge is included as a charge to a local authority's General Fund within its annual statement of accounts. The Accounts and Audit Regulations 2015 (SI 2015 No. 234) set out responsibilities for the signing and approval of a local authorities' annual statement of accounts. These regulations require the responsible financial officer for a local authority, on behalf of that authority, to sign and date the statement of accounts, and confirm that they are satisfied that it presents a true and fair view of the financial position of the authority at the end of the financial year to which it relates and that authority's income and expenditure for that financial year.

Following the conclusion of the period for the exercise of public rights in relation to the statement of accounts a local authority must consider, either by way of a committee or by the members meeting as a whole, the statement of accounts, which include the MRP charge for the year; approve the statement of accounts by a resolution of that committee or meeting; and ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given.

External auditor considerations relating to MRP

The external auditor's objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

As outlined in this brief paper, it is a local authority's responsibility to determine and make a prudent MRP, it is not the role of the external auditor to determine for an authority what is prudent.

The exercise of judgement is necessarily involved in a local authority's determination of what constitutes a prudent MRP, not least in an authority determining the period over which their capital expenditure is expected to provide benefits. As such, the level of MRP charged should not be thought of in binary "correct" or "incorrect" terms, rather a subjective evaluation of whether a calculation is "prudent" is required.

In gaining their assurance on a local authority's financial statements, the matters an auditor may consider in relation to MRP include:

- whether full Council, or the closest equivalent, approved an MRP statement for the financial year
- whether the authority has had regard to statutory guidance on MRP
- that MRP is not a negative amount and, if it is nil, that this is appropriate in the circumstances
- if changes have been made to the method(s) of calculation MRP, that these have been applied prospectively and appropriately approved
- whether MRP has been accounted for appropriately within the authority's statement of accounts.