## What is the Minimum Revenue Provision (MRP)?

**Minimum Revenue Provision (MRP)** is a financial rule or statutory accounting requirement that applies to all local authorities in the England.

When a council borrows money to fund major projects, like building a community centre, or leisure centre, it doesn't repay the full amount immediately. Instead, it spreads the cost over many years, similar to how a mortgage works.

The **MRP** is the **minimum amount** a council must set aside each year to repay those loans.

### In simple terms:

It's a **mandatory annual repayment plan** for councils' borrowing.

### Example:

Suppose a council borrows **£10 million** to build a new leisure centre.
The loan is to be repaid over **25 years**.
Each year, the council must set aside a portion of its budget the **Minimum Revenue Provision** to gradually pay off that debt.

This ensures councils don't just keep borrowing without repaying what they owe.

### Why is MRP important?

1. **Promotes financial responsibility**
   It prevents councils from overspending and stops them from leaving large debts for future generations.
2. **Supports better budget planning**
   Setting money aside each year helps councils manage their budgets more accurately and avoid financial shocks later on.
3. **Encourages fairness and transparency**
   It ensures that today's residents, who benefit from new facilities like leisure centres, help pay for them — instead of passing the full cost on to future taxpayers.
4. **Protects creditworthiness**
   By demonstrating responsible repayment, councils maintain trust with lenders (i.e. the Government) and auditors, much like how individuals maintain a good credit score.

### In summary:

**MRP = the council's annual loan repayment rule.**
It ensures councils stay financially responsible and fairly repaying what they borrow gradually rather than leaving the debt to future generations.

**What is the Minimum Revenue Provision (MRP)?**

Minimum Revenue Provision (MRP) is a charge that local councils in the UK must make to their accounts each year to set aside money for paying off the principal on debt used to finance capital expenditure. It ensures that borrowing for assets is paid off over the life of the asset, preventing a situation where a fully depreciated asset still has outstanding debt. Local authorities are required by law to make a "prudent" provision based on government guidance.

**How it works**

- **Capital expenditure:**

  This includes long-term assets like buildings, vehicles, and machinery.

- **Capital Financing Requirement (CFR):**

  The amount of capital expenditure which has not yet been financed by capital receipts, capital grants or contributions from revenue income.

  When capital expenditure is incurred the CFR increases. When resources are set aside to finance capital expenditure the CFR increases.

  When the CFR increases in a year statute requires councils to set aside a MRP.

- **Prudent provision:**

  The authority must determine a prudent amount to charge to its revenue account each year.

- **Debt repayment:**

  The MRP charge allows the council to gradually pay down the debt associated with the capital spending.

- **Matching debt to asset life:**

  The goal is to match the repayment period to the life of the asset, which prevents having an old asset with an outstanding loan.

- **Methods for calculating MRP:**
  - **Asset life method:** The most common method, where the charge is calculated based on the life of the asset being financed.
  - **Capital Financing Requirement (CFR) method:** A simpler method where a fixed percentage of the CFR is charged, often 4%.
  - **Depreciation method:** The provision is set equal to the depreciation charge in the accounts for that asset.

**Regulatory requirements**

- **Statutory duty:**

  Local authorities have a statutory duty to set a prudent MRP amount.

- **Government guidance:**

  They must follow guidance issued by the Secretary of State to ensure their approach is prudent and consistent.

- **Flexibility:**

While the overall duty is mandatory, councils have flexibility in how they calculate the specific amount, provided it is prudent.

- **Overpayment:**
  A council can choose to pay more than the minimum required MRP and should disclose any overpayment.