Appendix D – Annual Minimum Revenue Provision Policy 2018/19

1. Where the Council finances capital expenditure by debt there is a statutory requirement to put aside resources to repay that debt in later years. The amount charged annually to the revenue budget for the repayment of debt is known as the Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

2. The DCLG is currently consulting with local authorities on proposed changes to its existing guidance for calculating MRP, expected to be implemented in full for the 2018/19 financial year. The revised guidance makes it clear that an overpayment of MRP cannot be calculated retrospectively. Importantly, where a local authority has changed the methodology that it uses to calculate prudent provision and generated what the current guidance calls an 'overpayment' it can continue to incorporate that overpayment into future calculations of prudent provision. This means that this proposed change would not have an impact on the Council's existing methodology for calculating MRP. Another proposed change is to include a maximum useful economic life of 50 years for freehold land and 40 years for other assets. This would have the effect of increasing the Council's annual MRP charge in respect of capital expenditure incurred on new buildings which are currently charged MRP over 50 years, as MRP would need to be charged over a shorter 40 year period.

3. The CLG Guidance is intended to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The CLG Guidance requires the Council to approve an annual MRP statement of their policy each year, and recommends a number of options for calculating a prudent amount of MRP. The Council, however, is entitled to depart from the Guidance if it has good reason to do so.

4. The method currently used by the Council for the Medium Term Financial Plan (MTFP) period is to spread MRP over 10 years, 30 years or 50 years depending on the approximate useful economic life of the asset upon which debt financed capital expenditure is being incurred. The calculation of the MRP charge for 2018/19 will be based on debt financed capital expenditure prior to 1 April 2018.

5. The annuity method is used to make provision for an annual charge to the General Fund which, unlike the straight line method, takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the annual charges when they fall due.

6. The annuity method enables MRP financing of the Draft Capital Programme to be minimised over the medium term, with higher MRP costs in future years beyond the current MTFP period. There are no proposals to change this existing methodology for calculating MRP.

7. For assets acquired by finance leases or the Private Finance Initiative, the MRP will be determined as being equal to the element of the rent or charge that goes to write down the Balance Sheet liability.

8. No MRP will be charged in respect of assets held within the Housing Revenue Account.

9. Capital expenditure incurred during 2018/19 will not be subject to an MRP charge until 2019/20.

10. The calculation is reviewed annually by the Council's external auditors as part of the audit of the Statement of Accounts.