Appendix D – Annual Minimum Revenue Provision Policy 2019/20

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 Ministry of Health, Communities and Local Government's *'Capital Finance: Guidance on Minimum Revenue Provision (Fourth Edition)'* (the MHCLG's guidance) most recently issued in 2018.

2. This Guidance applies for the 2019/20 financial year and has not impacted the Council's existing methodology for calculating MRP.

3. In 2016/17, the Council changed the methodology that it uses to calculate prudent provision and generated what the Guidance calls an historical 'overpayment' of £25.9M. This overpayment is incorporated into future calculations of prudent provision. Given that the Council applied £3.9M of this overpayment in the two financial years 2016/17 and 2017/18, the remaining cumulative MRP overpayment of MRP stood at £22.0M as at 31st March 2018.

4. The MHCLG 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 MHCLG 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.

5. 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 2019/20 will be based on debt financed capital expenditure prior to 1 April 2019.

6. 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.

7. 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.

8. For assets acquired by leases or the Private Finance Initiative (PFI), 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.

9. The duty to make MRP does not extend to cover borrowing used to finance capital expenditure on Housing Revenue Account (HRA) housing assets and no MRP will be charged in respect of assets held within the HRA. The rationale for this is that assets held in the HRA are self-financing. Instead, local authorities with HRAs are required to make a charge to their Major Repairs Reserve, to maintain the functionality of housing assets.

10. Capital expenditure incurred during 2019/20 will not be subject to an MRP charge until 2020/21.

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