ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2023-24

Background

1. Minimum Revenue Provision (MRP) is a statutory requirement to make a charge to the council's General Fund as provision for the repayment of the council's past capital debt and other credit liabilities.

2. The Local Government Act 2003 requires local authorities to have regard to the Department for Housing, Communities and Local Government *(now known as Department for Levelling Up, Housing and Communities - DLUHC)* '*Guidance on Minimum Revenue Provision'.*

3. The broad aim of the Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by government grant, reasonably commensurate with the period implicit in the determination of that grant.

4. The Guidance requires the council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. This forms part of the Treasury Management Strategy considered by Council Assembly annually.

5. A prudent level of MRP on any significant asset or expenditure may be assessed on its own merits or in relation to its financing characteristics in the interest of affordability or financial flexibility.

6. The Strategic Director of Finance and Governance has delegated responsibility for implementing the Annual Minimum Revenue Provision Statement and executive, managerial, operational and financial discretion to determine MRP and any practical interpretation issues.

7. The Strategic Director of Finance and Governance may make additional revenue provisions, over and above those set out, and set aside capital receipts, balances or reserves to discharge financing liabilities for the proper management of the financial affairs of the HRA or the general fund.

Minimum Revenue Provision policy statement

8. MRP for all borrowing and credit arrangements is calculated on an annuity basis over the initial estimated life of the relevant assets. (This method effectively replicates how a standard repayment mortgage operates, with less principal repaid in the early years so that the total of interest and principal repaid each year remains constant over the mortgage period).

9. From April 2016 the annuity rates used for each year's capital expenditure funded by borrowing are based on the average PWLB rates for that year. For borrowing prior to April 2016 the annuity rate used is a weighted average

of historical PWLB loans from prior years. The calculation method and the rate or the period of amortisation shall be determined by the Strategic Director of Finance and Governance.

10. The Strategic Director of Finance and Governance shall determine how much and which capital expenditure is funded from borrowing and which from other sources. Where expenditure is only temporarily funded from borrowing in any one financial year and it is intended that its funding be replaced with other sources by the following year, no MRP shall apply, nor shall any annual MRP apply where spend is anticipated to be funded from capital receipts or grants due in the future but which is in the meantime funded from borrowing (subject to a maximum of three years or the year the receipt or grant is actually received, if sooner).

11. The asset life method shall also be applied to borrowing to meet expenditure which is treated as capital expenditure by virtue of either a direction under section 16(2) of the 2003 Act or regulation 25(1) of the 2003 Regulations. The Strategic Director of Finance and Governance shall determine the asset life. When borrowing to construct an asset, the asset life may be treated as commencing in the year the asset first becomes operational and postpone MRP until that year.

12. Where capital expenditure involves repayable loans to third parties the council may make nil MRP where the capital receipts arising from principal repayments are applied to reduce the capital financing requirement.

13. Where capital expenditure involves a variety of different types of works and assets, the period over which the overall expenditure is judged to have benefit over shall be considered as the life for MRP purposes. Expenditure arising from or related or incidental to major elements of a capital project may be treated as having the same asset life for MRP purposes as the major element itself. An estimate of the life of capital expenditure may also be made by reference to a collection or grouping of expenditure type or types.

PFI & Leases

14. In the case of finance leases, on-balance sheet private finance initiative contracts or other credit arrangements, MRP shall be the sum that writes down the balance sheet liability. These are being written down over the PFI contract term.

15. Where former operating leases have been brought onto the balance sheet on 1 April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

The Annuity Method

16. The annuity method makes provision for an annual charge to the General Fund which 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 annuity method also matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. the method reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). This re-profiling of MRP therefore conforms to the MHCLG (now DLUHC) "Meaning of Prudent Provision" which provides that "*debt [should be] repaid over a period that is reasonably commensurate with that for which the capital expenditure provides benefits*".