APPENDIX C

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2018-19

Background

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

2. The scheme of MRP was set out in former regulations 27, 28 and 29 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. This system was radically revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. New regulation 28 replaces a requirement that local authorities calculate the MRP pursuant to detailed calculations with a duty to make prudent MRP.

3. The Council is under a statutory duty "to determine for the current financial year an amount of MRP which it considers to be prudent". Local authorities are asked by the Secretary of State "to prepare an annual statement of their policy on making MRP for submission to their full Council". This forms part of the Treasury Management Strategy considered by full council annually.

4. In determining a prudent level of MRP the Council is under a statutory duty to have regard to statutory guidance on MRP issued by the Secretary of State. The Guidance provides four options which can be used by the Council when determining its MRP policy and a prudent amount of MRP. The Council however is entitled to depart from the Guidance if it has good reason to do so. This policy is consistent with the Guidance. The options do not change the total MRP the council must pay over the remaining life of the capital expenditure; however, they do vary the timing of the MRP payment.

5. MRP adjustments and policies are subject to annual review by external audit.

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. 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.

8. 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. The strategic director of finance and governance may make a capital provision in place of any revenue MRP provision.

General Fund Supported Capital Expenditure or Capital Expenditure incurred before 1 April 2008

9. In relation to capital expenditure for which support forms part of the calculation of revenue grant by the government or any capital expenditure incurred before 1 April 2008, the MRP shall be calculated in accordance with the Local Authorities

(Capital Finance and Accounting) Regulations 2003 as if it had not been revoked. In arriving at that calculation, the capital financing requirement shall be adjusted as described in the guidance.

10. In addition, the calculation method and the rate or the period of amortisation referred to in the guidance may be varied by the strategic director of finance and governance in the interest of affordability.

11. The methodology applied to pre-2008 debt, is an annuity basis, calculated over 41 years remaining as at 31 March 2017 (within the pre-2008 debt portfolio the final loan is due for repayment in 2057-58, i.e. in 41 years).

General Fund Self- Financed Capital Expenditure from 1 April 2008.

12. Where capital expenditure incurred from 1 April 2008 is on an asset financed wholly or partly by self-funded borrowing, the MRP is to be made in instalments over the life of the asset. The calculation method and the rate or the period of amortisation shall be determined by the strategic director of finance and governance.

13. 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 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.

14. The asset life method shall also be applied to borrowing to meet expenditure from 1 April 2008 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.

15. Where capital expenditure involves repayable loans or grants to third parties no MRP is required where the loan or grant is repayable. By exception, on the basis of a business case and risk assessment, this approach may be amended at the discretion of the strategic director of finance and governance.

16. 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.

17. As at 31 March 2017, the current debt incurred post 2008 is for the purchase of Tooley Street offices. The MRP policy applied is on an annuity basis over the useful economic life of the asset and land of 50 years (46 years remaining as at 31 March 2017).

PFI, leases

18. 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.

The Annuity Method

19. 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 DCLG "Meaning of Prudent Provision" which provide that "*debt [should be] repaid over a period that is reasonably commensurate with that which the capital expenditure provides benefits*".

Useful links:

The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2013 Edition)
http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-fully-revised-guidance-notes-book

DCLG guidance on Minimum Revenue Provision 2012
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319926/2089512.pdf