Appendix 1: Revised Minimum Revenue Provision Policy Statement

Background

1. Minimum Revenue Provision (MRP) is statutory requirement for a Council to make a charge to its General Fund to make provision for the repayment of the Council's past capital debt and other credit liabilities. The Council is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). MRP does not need to be set aside for the Housing Revenue Account (HRA).

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. The revised regulation 28 replaced 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 (TMSS) approved by full council at least 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 can 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 Chief Operating Officer (COO) has delegated responsibility for implementing the Annual MRP Statement. The COO also has 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 COO 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 COO may make a capital provision in place of any revenue MRP provision.

9. This MRP Policy Statement has been revised to consider the Council's recently agreed investment strategy, which requires the use of MRP to be outlined in more

detail, as well as to agree additional MRP options that are available for long-term property investments.

10. **General Fund Supported Capital Expenditure or Capital Expenditure incurred before 1 April 2008**

11. 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 CFR Regulations 2003 as if it had not been revoked. In arriving at that calculation, the CFR shall be adjusted as described in the guidance.

12. In addition, the calculation method and the rate or the period of amortisation referred to in the guidance may be varied by the COO in the interest of affordability.

13. The methodology applied to pre-2008 debt remains the same and is an approximate 4% reduction in the borrowing need (CFR) each year. A review of this methodology will be carried out and reported for the Treasury Management Strategy Statement report in February 2018.

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

14. Where capital expenditure incurred from 1 April 2008 is on an asset financed wholly or partly by self-funded borrowing, the MRP has previously been made in instalments over the life of the asset, with the calculation method and the rate or the period of amortisation determined by the COO.

15. From 1 April 2019 MRP for capital expenditure incurred from 1 April 2008 will be calculated using the annuity method. All balances as at 31 March 2019 will be carried at the same value and the same remaining life of the asset but a revised MRP calculation will be completed using the annuity method of MRP for 2019/20 and onwards. Currently the annuity method is used for the Investment and Acquisitions assets and it not proposed to amend this method, which is outlined in section 19 to 23 of this MRP statement.

16. The COO 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 received, if sooner.

17. The asset life method shall be applied to borrowing to meet expenditure from 1 April 2008 which is treated as capital expenditure by either a direction under section 16(2) of the 2003 Act or regulation 25(1) of the 2003 Regulations. The COO 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.

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

19. Where capital expenditure involves a variety 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 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.

Loans to Special Purpose Vehicles

20. As part of its Investment and regeneration programme, the Council will use several Special Purpose Vehicles (SPV) held through Reside to manage its property regeneration schemes. This will require the Council borrowing to provide funding for the SPV and for the SPV to repay the loan based on the cashflow forecast to be generated from the properties.

21. MRP using the annuity method will be charged over a period of 50 years for each scheme. An MRP period of 25 years will be used for modular / prefabricated properties. The MRP will therefore reflect the repayment profile of the SPV to the Council and any borrowing made by the Council will made to match the cashflow requirements of the SPV.

22. For each IAS scheme a set two-year stabilisation period will be used, although this can be extended, with the agreement of the COO, to three year in cases where there are significant pressures on a scheme's cashflow. A stabilisation period for each scheme is required to:

    - allow sufficient funds to cover any additional costs;
    - allow the property to be fully let; and
    - cover any initial letting and management costs.

23. The MRP 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*".

24. Subsequently, where an investment property is operational and has been valued at sufficiently more than its net cost, as at each financial year end, at the discretion of the COO, no MRP will need to be set aside during that year. A key consideration of the COO will be if the property can be sold in an open market and that sale will

potentially take place within a five-year period. Any MRP that has already been set aside for the investment property will be retained as a reserve against the property. For subsequent years a revaluation of the property will need to be completed. Where the asset is valued at less than its net cost, then MRP, net of any MRP already charged and based on the remaining life of the asset, will need to be set aside.

PFI, leases

25. 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.