

Appendix: B

Minimum Revenue Provision Statement 2018/19

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended], local authorities are required to charge a Minimum Revenue Provision (MRP) to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance (issued by the Secretary of State).

An underpinning principle of the local authority financial system is that all capital expenditure must be financed either from capital receipts, capital grants (or other contributions) or eventually from revenue income. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their Capital Financing Requirement (CFR). In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits (often referred to as 'useful economic life').

The guidance requires the Authority to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP.

Having reviewed the options suggested by the guidance and considered the historic information available to the authority for previous years capital expenditure funded from un-supported borrowing, the Authority proposes an MRP policy based on two distinct components:

1. An element based on the period the capital expenditure provides benefit to the authority, as per the maximum useful economic lives (UEL) in the table below:

ASSET CLASS	MAXIMUM UEL
Freehold Land	999 years
Freehold Buildings	99 years (dependant on specific-asset information provided by the Council's RICS qualified valuation team)
Leased Land	Length of lease term or asset UEL, whichever is lower
Leased Buildings	Length of lease term or asset UEL, whichever is lower

Plant & Equipment (owned)	10 years
Plant & Equipment (leased)	Length of lease term or asset UEL, whichever is lower
IT	7 years
Intangible (software licences)	Length of licence term
Infrastructure	64 years
Heritage	999 years
Assets Held for Sale	Dependant on the asset class prior to being reclassified as held for sale

For un-supported loans funded capital expenditure prior to 1st April 2018 there was no direct link between individual assets and their funding types, so it has not been possible for the authority to analyse the CFR (as at 31st March 2018) by specific loans-funded assets. It is the Council's intention to apportion the CFR balance (as at 31st March 2018) of £366.115m over the weighted average life (based on the useful economic lives) of the Council's entire asset portfolio – as reported in the 17/18 published accounts.

Any capital expenditure funded from un-supported borrowing post 1st April 18 will have a direct link to the benefit being received (asset) on the accounting system, it is therefore the Council's intention to put aside revenue for this element of the CFR on an asset by asset basis – having considered the useful economic lives in the table above.

Paragraph 40 of the statutory guidance suggests that the MRP should normally commence in the financial year following the one in which the expenditure was incurred, so capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20.

2. An additional element to ensure the authority has enough put aside to meet the repayment dates of the loans when they fall due.

Paragraph 14 of the statutory guidance identifies a concern over an authorities' ability to fully provide for its debt based on current levels of MRP. As relying on continuing access to PWLB to repay debt when it falls due does not represent a prudent approach, we are planning to make an additional MRP payment of £0.400m each year (incrementally) over and above the MRP charge identified in point 1. This planned incremental increase each year will ensure we have enough put aside to meet the repayment dates of existing debt instruments when they fall due. This has been confirmed by a detailed review of the current debt maturity profile. We will continue to monitor the MRP and repayment profile of the Council's debt instruments, and if future borrowing creates a potential shortfall, we will increase the additional MRP accordingly to ensure significant provision is put aside.

NB. This proposal excludes leased assets, as their MRP requirement has been met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability when the rent is paid.

Based on the Authority's Capital Financing Requirement on 31st March 2018, the budget for 2018/19 MRP has been set as follows:

	31.03.2018 CFR £m	2018/19 MRP £m
<u>Capital Expenditure</u>		
Capital expenditure before 01.04.2018	366.115	1.039
<u>Additional Contribution</u>		
Additional Contribution (2018/19)	-	0.400
Total	366.115	1.439