

## Annual MRP Statement 2018-2019

### Minimum Revenue Provision – an introduction

#### 1. What is Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. In accordance with proper practice, the financing of such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual charge known as Minimum Revenue Provision (MRP), which is determined by the Council under guidance.

#### 2. Statutory duty

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4) lay down that:

“A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.”

#### 3. Government guidance

Along with the above duty, the Government issued guidance which came into force on 31 March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to “have regard” to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. Although it is up to each Council to determine for itself how to calculate its MRP, the guidance suggests four methodologies, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to ‘have regard’ to the guidance therefore means that:

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.
2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

#### 4. Timing

This statement shall take effect from 1 April 2018, unless an alternative date is stated below, and shall take precedence over any statements previously approved.

#### 5. Calculation

MRP shall be calculated by adding together the amount calculated using the method as stated below.

##### Method

To be used for all capital expenditure taking into account only capital expenditure and financing decisions, and the classification of fixed assets, reflected in the Council's accounts for the preceding year.

With the variations set out below, MRP will be calculated, on an individual fixed asset basis (unless they are land or community assets (no depreciation), where it is capitalised under statute/direction (equal pay, REFCUS etc.) or when one grouped "asset" is created for MRP calculation purposes for each category for individual years), in accordance with the annuity method whereby MRP for each year will be the amount presumed to be the principal element of the equal amounts that would be payable each year in respect of a loan at the specified rate of interest that would reduce the outstanding principal amount to zero at the end of the estimated useful life.

The specified rate of interest will be the average interest rate of the Council's debt as at the end of the year preceding the first year in which the annuity rate is to be applied. Where the interest rate on debt is variable the rate to be used in calculating the average shall be the interest rate on the debt at 31 March of the year for which the average is being calculated.

MRP will thus be calculated in accordance with the following formula:

$$\text{PPMT (A,B,C,D-E) + F - G}$$

Where

PPMT is the PPMT financial function in Microsoft Excel 2010

A is the specified interest rate

B is the number of years (including the current year) for which MRP has been charged on an annuity basis

C is the useful economic life of the asset as at the start of the year for which MRP is first charged on an annuity basis. C shall be equal to the useful life of the fixed asset in question, as estimated by the Council. For assets with a useful life of more than 99

years, C shall equal 99. C shall not be varied for changes in the useful life of the asset unless the Council considers that special circumstances apply that would mean that a change would result in MRP being more reasonably calculated on a prudent basis; for example the useful life of a particular asset (as assessed for depreciation purposes) could change so dramatically that continued use of the option would no longer be supportable as prudent. For example, a property could be sold only a short time into its originally estimated useful life.

D is the total need to borrow for capital purposes (resulting from capital expenditure).

E is the aggregate value of any anticipated future capital receipts that are an integral part of the capital scheme in question. E shall be reviewed each year on performing the calculation, and amended if necessary.

F is an amount determined by the Section 151 Officer. The cumulative total of F, taken across all past and current years, shall never be less than zero.

G is an adjustment arising where the Section 151 Officer considers that the previous method of calculating MRP has been overly prudent. An adjustment can be made (G) to reverse the overly prudent sum; the following conditions apply to this adjustment:

- (a) The total MRP after applying this new adjustment (G) will not be less than zero in any financial year;
- (b) The cumulative total of this new adjustment (G) will never exceed the amount of the calculated overly prudent sum.
- (c) The use of the new adjustment will be reviewed on an annual basis or more frequently if there is a mid-year revision for any reason.

**The Method shall be varied in the following circumstances:**

- (a) For non-operational assets, for which no charge will be made. Where an asset is classed as non-operational because it is under construction, the method above will commence once the asset becomes operational.
- (b) For expenditure on fixed assets that are not or would not be classed as fixed assets of the Council in accordance with proper accounting practice, in these instances C shall initially be equal to the estimated remaining useful life of the fixed asset in question.
- (c) For expenditure capitalised under direction, for which C shall initially equal 20, and shall not be reviewed or amended.
- (d) For land acquired on or after 1 April 2015, no charge will be made. In

circumstances where an acquisition relates to both land and buildings this policy will only be applied to the element relating to the land value.

- (e) For historical Magistrates' Courts Loan Charges, 4% charge will be made.
- (f) **West Midlands Combined Authority: Collective Investment Fund**  
The agreed Combined Authority Devolution Deal proposes the establishment of a Collective Investment Fund to support investment in the region. It is possible that some of this investment may be delivered by individual districts, and funded from prudential borrowing.

MRP on capitalised loan advances to other organisations or individuals will not be required. Instead, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. However, revenue MRP contributions would still be required equal to the amount of any impairment of the loan advanced.

MRP on investments in Equities will be made on an annuity profile over 20 years, as recommended by Government Guidance.

- (g) With regard to PFI and leases the most appropriate MRP method as deemed by the Section 151 Officer will be charged; either in accordance with the financial model imbedded in the legal agreements or annuity and useful economic life.
- (h) Where an asset is classified as an investment asset from 1 April 2013 and generates sufficient income to meet the total costs of borrowing, no charge will be made.