Appendix 3

Minimum Revenue Provision

Under Regulation 28 of the Local Authorities (Capital Finance and Accounting) Regulations 2003 local authorities are required to charge an amount of Minimum Revenue Provision (MRP) to their revenue account in each financial year which is prudent. The definition of prudent is set out in statutory guidance issued by the Secretary of State for Communities and Local Government and which authorities are required to have regard to.

Under the guidance local authorities are required to prepare an annual statement of their policy on making MRP to Full Council. The guidance distinguishes between borrowing for capital expenditure which was previously supported by the government through the Revenue Support Grant system prior to 1 April 2008 and borrowing subsequent to this date where local authorities can use their prudential borrowing powers.

For capital expenditure incurred prior to 1 April 2008, authorities are allowed to continue to apply the 4% MRP based on the level of borrowing. The guidance provides two options for carrying out this calculation. Option 1, 'the regulatory method', is to continue to use the calculations that were used under the system that existed from 2004/05 when the previous regulations came into effect. This means that the amount of non-housing Capital Financing Requirement (CFR), adjusted as set out in the original regulations (Adjustment A'), is used as the starting position for the MRP calculation in 2008/09 and adjusted thereafter for supported borrowing in each year. Option 2, the CFR method, is similar to Option 1 but does not include any adjustments to the CFR.

For new borrowing under the Prudential system, councils are required to adopt one of two further options for determining a prudent amount of MRP. Option 3, which is 'the asset life method', allows councils to make provision for repayment of principal over the estimated life of the asset. This can be done using the 'equal instalment' method, where equal amounts of principal are paid each year, with reducing interest payments as debt is repaid, or the 'annuity' method, which is akin to a mortgage where the combined sum of principal and interest are equalised over the life of the asset. Option 4, which is the 'depreciation method', involves making Minimum Revenue Provision in accordance with the standard rules of depreciation accounting. This means setting aside an amount each year in line with estimated annual depreciation until the total initial debt is provided for.

The MRP policy proposed for non-HRA assets is as follows:

a. For capital expenditure prior to 1 April 2008, it is proposed that the council adopts 'the regulatory method' (Option 1). Option 1 leads to a lower level of MRP than Option 2, and avoids the council having to make complex calculations for all its assets which it would have to do if Options 3 or 4 were adopted for supported borrowing.

b. For subsequent prudential borrowing incurred post 1 April 2008, it is proposed that the council adopts Option 3, 'the asset life method', and that an 'annuity' approach is used for calculating repayments. This ensures payments are spread equally over the life of the asset, which matches more closely the value the council gets from the asset than loading payments in the early years of the asset life as would happen under the equal instalment method. It is also considered that this option is more cost effective as provision is not required until the year following actual capital expenditure.

c. For assets acquired to rehouse families affected by the Grenfell Tower fire, for which a direction has been given by the Secretary of State to hold these properties within the General fund, rather than the HRA , a prudent assessment of a NIL MRP provision will be made as long as these properties are held for this purpose and will apply regardless of any subsequent directives and changes in legislation . This assessment is based on the fact that this is consistent with the treatment of comparable HRA assets. In the event that any such property is no longer held for that purpose then option 3 will apply unless the property is disposed of with the receipts being applied to debt redemption.

The proposed asset lives which will be applied to different classes of assets are as follows:

- Vehicles and equipment – 5 to 15 years;
- Capital repairs to roads and buildings – 15 to 25 years;
- Purchase of buildings – 30 to 40 years;
- New construction – 30 to 40 years;
- Purchase of freehold land – 50 years

The guidance also requires that the life of the asset is determined in the year in which it is acquired and is not varied subsequently. The requirement to make Minimum Revenue Provision does not commence until the asset becomes operational. The guidance also sets out the approach to be taken to specific expenditure types which do not fall within the general categories above, including spending capitalised under directions issued by the Secretary of State, capital grants to other organisations and individuals and so on. Details of the maximum asset life that can be applied in these cases are set out in the table below:

Asset Life for Specific Assets Set Out in Guidance

Expenditure Type	**Maximum Value of Asset Life**
Expenditure capitalised by virtue of a direction by the Secretary of State	20 years
Expenditure on computer programs	The life of computer hardware
Loans and grants towards capital expenditure by third parties	The estimated life of the assets in relation to which the third party expenditure is incurred
Repayment of grants and loans for capital expenditure	25 years, or the period of the loan if longer
Acquisition of share or loan capital	20 years
Expenditure on works to assets not owned by the authority	The estimated life of the assets
Expenditure on assets for use by others	The estimated life of the assets
Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	25 years

In the case of finance leases the MRP requirement will be met by a charge equal to the element of the rent/charge that goes to write down the Statement of Financial Position liability.

The above policies do not apply to HRA assets. The duty to make Minimum Revenue Provision in the Local Authorities (Capital Finance and Accounting) Regulations 2003 does not apply to HRA assets.