Appendix C – Minimum Revenue Provision Policy

C.1 The Council is under a duty to annually set aside revenue funds for the prudential repayment of outstanding capital borrowing in accordance with provisions set out in CIPFA's Prudential Code and Ministry of Housing, Communities and Local Government's (MHCLG) Statutory Guidance on Minimum Revenue Provision. The setting aside of revenue funds for the future repayment of outstanding borrowing is referred to as a Minimum Revenue Provision (MRP) charge. As part of the regulatory framework, Full Council is required to approve a Minimum Revenue Provision (MRP) Policy.

C.2 The MRP policy, in accordance with proper practice, considers outstanding capital borrowing to be the Council's Capital Financing Requirement (CFR) rather than to external loans taken out to finance capital expenditure. Accordingly, any reference in this policy to the repayment of capital borrowing relates to the setting aside of resources to reflect movements within the Council's CFR rather than to the physical repayment of external debt.

General

C.3 Provision for the repayment of outstanding capital borrowing will generally be made in accordance with the guidance and regulations to reflect the estimated life over which the capital assets acquired are anticipated to provide useful economic benefit. A schedule setting out expected lives of standard categories of assets is provided below. However, this may be adjusted on an individual asset by asset basis depending on the specific circumstances. The Council's statutory s151 officer will, as necessary determine individual asset lives for MRP purposes (in accordance with the overriding requirement to allow for the prudent provision for repayment of debt).

Standard Expected Asset Lives

• Major New Builds	40-50 Years
• Freehold Land	50 Years
• Major Extensions	20-40 Years
• Major Refurbishments	20 Years
• Major Transport Infrastructure / Regeneration	30 Years
• Other Transport Schemes	20 Years
• Other Small Capital Schemes	10 Years
• Large Vehicles (Refuse Freighters / Buses Etc)	7-8 Years
• Other Vehicles	5 Years
• Software Licenses	Life of License
• Share Capital	20 Years
• Capital Grants / Loans to Others	Expected Life of asset Held by third party

C.4 Of the four standardised methods set out as examples in the statutory regulations for the calculation of MRP, the Council has adopted the “Asset Life Method - Annuity” as the one which best allows for the prudent repayment of capital borrowing over the life of individual capital assets. MRP is the principal element for the repayment of borrowing. The annuity is the repayment profile determined by the useful life of the asset and an appropriate interest rate.

C.5 Assets acquired and with notional outstanding capital borrowing will continue to have an annual MRP charge levied at 2% of the identified capital debt balance at 31 March 2011.

C.6 Assets under construction which have yet to fully deliver their expected benefits will not be subject to MRP charges to the Revenue Account until such time as they have been operational for a full accounting year. Accordingly, on becoming operational, the charge for MRP will not commence until the following financial year.

C.7 Any prior error or change in assumption as to expected future asset life may be adjusted for in the current (or future) financial year, subject to any constraints on such adjustment as set out in the Prudential Code or Statutory Regulations.

C.8 Whilst the above sets out the Council’s general MRP principles and policy, a number of specific instances and circumstances require separate treatment with regard to MRP in order to ensure the charge to revenue is both prudent for the repayment of debt and accurately reflects the economic benefits being realised. These are set out below:

Specific MRP Cases

C.9 Capital expenditure financed by finance lease or other service concessions (including Private Finance Initiative schemes) include within their annual payments both an interest and principal repayment element. The principal element included within these payments will be used to represent the MRP charge in accordance with the contractual agreement rather than separately calculating an MRP charge under the usual annuity method.

C.10 Capital loans to third parties with terms that include annual principal repayment (either equal instalment or annuity-based) will not be charged a separately calculated MRP charge as the annual principal repayments will be used to reduce the CFR and accordingly reduce the overall capital borrowing.

C.11 Short term loans for capital purposes (those with a full repayment date of five years or less) will generate a receipt on their maturity which for capital accounting purposes counts as a capital receipt. On the basis that such capital receipts will be applied to reduce the Capital Financing Requirement

– and as such deemed to repay the capital borrowing – no MRP charge will be made on such loans.

C.12 Capital loans to wholly-owned subsidiaries will not be subject to MRP charges in circumstances where the net worth of the subsidiary is (or is reasonably expected to be in the short to medium term) in excess of the loan and as such a disposal of those assets would provide sufficient funds to fully repaying the outstanding capital borrowing of the Council.

C.13 Charges for the provision to repay capital debt relating to share capital for group holdings will not be applied in circumstances where any proposed debt restructuring and re-gearing is expected to lead to the redemption of called up share capital over the short to medium term.

C.14 Where the Council has outstanding borrowing relating to individual and specific investment property assets, the Council reserves the right in exceptional circumstances (where a substantial void period in lettings is encountered) to take a temporary "holiday" in MRP payments for that asset until the property is let or a strategy determined to change the asset use or dispose of the asset and thus generate a capital receipt. Any MRP holiday arising from such a situation will be reversed by correspondingly adjusting future MRP charges over the estimated remaining life of the asset or a capital receipt realised.

C.15 Individual assets being subject to an MRP charge will cease to be subject to MRP charges at the point they are identified as surplus and have a likely expectation of generating a capital receipt in the short to medium term.

C.16 The Housing Revenue Account (HRA) is not subject to the same statutory annual requirement to make an MRP charge as the General Fund. It is however required to make provision for the repayment of capital debt over the longer term (broadly over the thirty year life of the HRA Business Plan). In prior years, the HRA has set aside 2% per annum of its CFR to meet this obligation. This Policy proposes that this blanket 2% per annum policy is dis-continued and that the HRA is given greater flexibility to make provision for the repayment of debt over the life of its Business Plan. The HRA Business Plan provides for significant investment in modernising its existing holdings as well as new housing stock, the application of a more flexible and long term strategy for debt repayment will ease pressure on HRA balances and enable greater provision of decent homes whilst still allowing the overall level of debt to be repaid over the long term. The Council's s151 officer will continue to ensure that the HRA Business Plan provides for the prudent repayment of debt over the longer term.

C.17 Subject to affordability and the sustainability of the budget and Medium Term Financial Strategy, the Council's S151 Officer will continue to explore opportunities for the earlier reduction of outstanding debt for both the General Fund and HRA, and where appropriate and subject to available resources, reserve the power to make supplementary MRP contributions over and above the minimum previously determined as prudent, where longer term financial benefits may be derived.

Capital Receipts

C.18 Capital Receipts may ordinarily be applied to fund capital expenditure or be set aside for the repayment of debt. An exemption currently applies which allows receipts to be used to fund revenue expenditure which generates future and ongoing savings and service transformation – referred to as the Flexible Use of Capital Receipts.

C.19 The Council's S151 Officer will apply General Fund capital receipts to optimise the benefit to the revenue account whilst being mindful of the long term need to prudently repay capital debt.

C.20 To the above end, all capital receipts (unless statutorily or contractually ring-fenced to specific purposes) will be applied to their most beneficial purpose. Where capital receipts are applied to repay debt (and thus reduce the CFR) such repayments will be applied against the remaining borrowing identified on an asset by asset basis and the MRP liability (both for current and future years) adjusted accordingly.