

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT for 2022/23

The Council is required to have a policy on providing a prudent minimum revenue provision which must be approved by Full Council each year.

Unlike a mortgage where amounts of principal are repaid each month, the borrowing undertaken by this Council may be repayable on maturity at an agreed future date. To reflect this, the minimum revenue provision (MRP) exists which is a concept whereby an amount is charged to revenue each year in order to have sufficient monies set aside to meet the future repayment of principal on any borrowing undertaken.

The regulations require Local Authorities to set aside as its annual MRP an amount that it considers to be “prudent”. The aim of the regulations is that the period over which an MRP is calculated closely relates to the life of the asset.

However in the case of the Housing Revenue Account (HRA) it has been the Council’s policy not to make any MRP charge to the HRA because the level of borrowing relating to the HRA is significantly less than the value of the housing stock. Following the implementation of the new self financing arrangements from April 2012, the structure of the borrowing to fund the associated HRA debt settlement was based on principal being repaid over the 30 years of the HRA business plan. Therefore this principal is in effect the amount set aside to repay debt and will therefore be treated as HRA MRP. In terms of MRP for ‘old’ HRA debt, this will be kept under review as part of future HRA business planning processes.

The options applicable in calculating MRP are as follows:

Where Capital Expenditure is financed by Government Supported Borrowing

- **Regulatory Method** – This is where borrowing is supported by the Government through the Formula Grant and Local Authorities can continue to use the existing approach as set out in the old regulations.
- **Capital Financing Method** – Similar to the above, Local Authorities can continue to set aside 4% of their General Fund capital expenditure financed by borrowing each year as MRP. The difference compared with the regulatory method is that it excludes a transitional adjustment that relates to the regulations that were applicable before the current regulations. As this adjustment does not apply to TDC, the two approaches are essentially the same.

Where Capital Expenditure is financed by Prudential Borrowing

- **Asset Life Method** – Two alternatives are provided within the guidance. The first is that MRP can be calculated by taking the amount borrowed and dividing it by the associated assets useful life – equal instalment method. The second is based on a more complicated annuity basis although based on the same principle.
- **Depreciation Method** – This requires that an MRP is made in accordance with current rules for depreciation accounting whereby an amount would be charged equal to the annual depreciation of the specific asset which could differ from the previous options given the alternatives for calculating depreciation.

A significant advantage of the asset life method over the depreciation method is that MRP does not have to start until the year the related asset becomes operational which may be different to the year in which depreciation would be charged.

It is important to note that subject to the type of asset acquired there may be a significant impact on the revenue budget, which would need to be taken into account in any future spending / borrowing decisions.

Having reviewed the position for 2022/23, no changes compared to 2021/22 are proposed. Therefore the Annual Minimum Revenue Provision Policy Statement for 2022/23 is as follows:

In accordance with the Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008, the Council's policy for the calculation of MRP for 2022/23 shall be the Capital Financing Requirement Method for supported borrowing and the Asset Life (equal instalment) Method for prudential borrowing.