Appendix 2

Minimum Revenue Provision Policy

1. Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme. MRP, which is largely defined by regulation, is aimed at ensuring that the council does not have time expired/fully depreciated assets but still has associated outstanding debt.
2. Where capital expenditure was incurred before 1 April 2008 MRP will be charged on a straight-line basis over 50 years (from 1 April 2016) in line with previous budget approvals. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using the asset life annuity method. Using this method MRP is calculated in a similar way as calculating the capital repayment element of a fixed rate repayment mortgage. Where borrowing relates to historic balances from the former County and District Councils, the calculation is based on the outstanding balances on 1 April 2020 and the remaining asset lives.
3. In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.
4. The asset life annuity method calculation requires estimated useful lives of assets to be input into the calculations. These life periods will be determined under delegated powers to the Service Director Finance, with regard to the statutory guidance. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the asset life annuity method would not be appropriate.
5. As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
6. Recognising the impact of MRP on the revenue budget is an important element in determining the affordability and sustainability of borrowing to fund an asset. Essentially, if there is no on-going capacity within the revenue budget to afford the MRP then one shouldn't take out the borrowing in the first place. This is why a robust

business case demonstrating a rate of return in excess of costs (including MRP) is important.

7. Where the Council borrows or has borrowed to provide capital loans to third parties (both commercial and non- commercial loans), the Council will comply with the Local Authorities (Capital Finance and accounting) (England) Regulations 2003 and all subsequent amendments. This includes the application of a Minimum Revenue Provision (MRP) charge in relation to these loans, including when a loss is recognised on any such loan arrangement.