

Appendix 8 MRP 2021/22 Policy

The Minimum Revenue Provision (MRP) is an amount charged to the revenue account for the repayment of debt, which has been used to finance capital expenditure. The Local Government Act 2003 requires the Authority to have regard to the Welsh Government's Guidance on Minimum Revenue Provision (most recently issued in 2010).

The broad aim of the WG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The WG Guidance requires the Authority to approve an Annual MRP Statement each year. The Authority's MRP policy for 2021/22 is stated below.

Supported Borrowings

MRP on historic debt liability as at the 31st March 2007 and subsequent capital expenditure funded from supported borrowings will be charged to revenue over 50 years.

The MRP charge for supported borrowing will be based on an assumed annuity rate of 2%.

The annuity method results in a lower charge in earlier years and a higher charge in the later years, and takes into consideration the time value of money.

Unsupported Borrowings

The MRP charge for individual assets funded through unsupported borrowing will be based on the estimated life of each asset or 25 years where this cannot be determined.

The MRP charge for unsupported borrowing will be based on the average Public Works Loan Board (PWLb) interest rate for new annuity loans in the year that an asset becomes operational.

Advice on asset life (land and buildings) will be sought from the Council's property valuation team. The first MRP Charge will start in the year after the asset becomes operational.

MRP Charges Relating to Other Capital Expenditure

- 1 For assets acquired by leases or the Private Finance Initiative [and for the transferred debt from local authorities], MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- 2 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the WG Guidance, it is thought to be a

prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

- 3 MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- 4 The MRP charge for the HRA will be determined by using an interest rate of 2% on the opening capital financing requirement on a reducing balance basis.
- 5 The Authority has the option to make voluntary overpayments on MRP where possible to reduce the revenue charge in later years.

Capital expenditure incurred during 2021/22 that is financed by debt will not be subject to an MRP charge until 2022/23.