

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2019/20

1. To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive CFR is indicative of an underlying need to borrow and will arise when capital expenditure is funded by 'borrowing', either external (loans from third parties) or internal (use of cash balances held by the City Fund).
2. MHCLG regulations have been issued which require the Court of Common Council to approve **an MRP Statement** in advance of each year. The regulatory guidance recommends four options for local authorities. Options 1 and 2 relate to government supported borrowing prior to 2008. As the City Fund does not have any outstanding borrowing from this period, these options are not relevant. For any prudential borrowing undertaken after 2008, options 3 and 4 apply:
 - **Option 3: Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
 - **Option 4: Depreciation method** – MRP will follow standard depreciation accounting procedures;
3. For any new borrowing under the prudential financing system, the City Fund will apply the asset life method over the useful economic life of the relevant assets. However, as loan repayments will commence in advance of the assets becoming operational, additional provision will be made in the early years so that MRP is at least equal to the amount of the loan principal repaid. This option provides for a reduction in the borrowing need over the approximate life of the assets.
4. As in previous years, the City will continue to apply a separate MRP policy for that portion of the CFR which has arisen through the funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards. This deferred income is released to revenue over the life of the leases to which it relates, typically between 125 and 250 years.
5. The City's MRP policy in respect of this form of internal borrowing is based on a mechanism to ensure that the deferred income used to finance capital expenditure is not then 'used again' when it is released to revenue. The amount of the annual MRP is therefore to be equal to the amount of the deferred income released, resulting in an overall neutral impact on the bottom line.
6. MRP will fall due in the year following the one in which the expenditure is incurred, or the year after the asset becomes operational.
7. The MRP liability for 2018/19 is £1,056k and is estimated at £1,152k for 2019/20.