

## Appendix C - Explanation of Minimum Revenue Provision (MRP)

### What is MRP?

Minimum Revenue Provision (MRP) is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans). This is an annual revenue expense in a Council's budget.

### Who approves the Council's MRP policy?

The Guidance from the Department of Communities and Local Government (DCLG) recommends the preparation of an annual statement of policy on making MRP, which has to be submitted to Council for approval. This is part of a Council's Treasury Management Strategy. This is the subject of a separate item on this Council agenda.

### What different methods are there for MRP?

#### *i) Equal Instalment Asset Life Method (i.e. over 50 years)*

One method of calculating MRP is on the Equal Instalments of Principal (the Asset Life method). In this instance, MRP is an equal annual charge every year which is calculated by dividing the original amount of borrowing by the useful life of the asset.

An example is therefore, if an amount of £26.75 million is borrowed for the first tranche, the calculation of MRP is £26,750,000 divided by 50 years (asset life) = annual MRP charge of £535,000. (This is shown in Option 1 in Appendix B).

So every year the Council makes a provision in its revenue budget to repay the borrowing of £535,000 annually (the same amount for each of the 50 years)

#### *ii) Annuity Method (over the 50 years)*

Another method the Council could use is the Annuity Method for calculating MRP. Under this calculation, the revenue budget bears an equal annual charge (for principal and interest) over the life of the asset by taking into account the time value of money. Since MRP only relates to the 'principal' element, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing average PWLB rates.

Under this example, the MRP charge in Year 1 on a £26.75 million borrowing would be £270,000, this rises to £277,000 in Year 2, £284,000 in Year 3, £292,000 in Year 4 and £299,000 by Year 5. (This is shown in Option 2).

### What's the difference between the two methods for MRP?

The first method (equal instalment) means £535,000 is the revenue charge every year for 50 years.

In the second method (annuity), the payments start off lower e.g. £270,000 and then gradually increase every year for each of the 50 years. So for the first 30 years there is a lower revenue charge using the annuity method, this then becomes higher in the latter years. The Annuity method may benefit the strategy as it develops and allows time for revenue income streams to materialise.

### Are there other methods for calculating MRP?

Yes. Under the current guidance, Councils have some discretion over how they provide for MRP over the asset life. For example the Council could decide that it would be appropriate to make MRP based upon the rental income received each year, or a percentage thereof, until the debt liability is repaid.

**Is a recommendation being made (as part of this report) on the method of MRP for the Council to adopt?**

No – Please see the separate Council agenda item entitled “Annual Treasury Management Strategy”.