Revised Annual Minimum Revenue Provision Statement 2024/25

1 Background

1.1 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

1.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed 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.

1.3 The Guidance provides suggested methods for the calculation of MRP that the DLUHC consider to be prudent, however the Guidance and legislation do not define what is prudent. It is for each Authority to determine a prudent repayment based on its own individual circumstances, considering the medium and long-term financial plans, current budgetary pressures, future capital expenditure plans and funding needs.

1.4 The current MRP policy has not been changed since 2017/18. The changes to the financial landscape which the Authority is now faced, including recent increases in interest rates and inflationary impacts across all Authority service areas mean it is sensible to review the Policy now.

1.5 Any change to the Authority's MRP Policy needs to consider:

- Its appropriateness and compliance with the MRP guidance.
- Affordability, prudence and sustainability with regard to current revenue budgets of the Authority, balanced against deferring costs of future Authority Taxpayers.
- The Authority's future capital programme in terms of complexity, variability and deliverability.
- Capital Financing Requirement (CFR) forecasts and the level of borrowing proposed by the Authority in future years.
- S73 officer consideration of what constitutes a prudent provision.

1.6 The Authority has commissioned Arlingclose to advise on this matter and the associated report and recommendation is attached at Annex A. All the policy recommendations have been adopted.

2 Current Minimum Revenue Provision Policy

2.1 For non-PPP or Finance lease assets the Authority makes MRP based on the expected asset life on a reducing balance basis.

2.2 For PPP and finance lease assets MRP is made ion a straight-line basis over the period of the PP contract.

2.3 There is currently some £36m in respect of unknown assets that forms part of the CFR relating to the period between 2008 and 2017. Currently no MRP is charged on this element of the CFR.

3 Proposed Changes to existing Policy

3.1 It is proposed to use the annuity method as opposed to the straight-line or reducing balance method for MRP being made on the asset life basis and the pre-2008 supported borrowing CFR. The interest rate to be used when calculating the annuity will be the PWLB certainty rate for annuity loans for the remaining life of assets at the date of the policy change (1st April 2024) for existing borrowing and average certainty rate for annuity loans for the relevant lives of assets in the year of acquisition for subsequent capital expenditure.

3.2 It is proposed to make MRP over the asset life rather than contract length for PPP Assets where the ownership of the assets pass to the Authority at the end of the contract or the assets continue to provide a benefit to the Authority over their life.

3.3 It is proposed to write off the element of the CFR built up between 2008 and 2017 over 4 years.

4 Rationale for Changes

<u>Annuity Method</u>

4.1 The annuity method is an acceptable method for making MRP and is explicitly mentioned in the statutory guidance on MRP. The annuity method spreads the total capital financing costs (MRP plus interest) evenly over the asset life, similar to a repayment mortgage. When MRP is made it increases the Authority's cash balances, therefore, reducing overall debt costs or increasing income from investment balances. The straight-line approach keeps MRP itself even, but as interest costs reduce over time, it front loads the total financing costs.

4.2 As the annuity method is an approach where overall costs to Authority taxpayers over the life of an asset is even is more prudent as Authority taxpayers are getting an even benefit from the assets. However, it should be noted that overall costs are slightly higher when using the annuity method as the principal is repaid more slowly resulting in higher overall interest costs. Conversely, when factoring in the time value of money the annuity method becomes a more suitable option.

PPP Useful Asset Lives

4.3 The Authority considers that it is prudent to provide for MRP over the asset life rather than the contract period. This is provided that the, where the asset life is longer than the contract length, the Authority are likely to gain ownership of the asset or the asset is likely to continue to provide a service-related benefit to the Authority and taxpayers in respect of the Merseyside Districts once the contract expires. This is because making MRP over the life of the asset fairly charges the Authority and associated tax-payers over the period that benefits are received from the asset.

4.4 The life of PPP assets is assumed to be 5 years after the contract expiry date, which is line with the contractual requirement in respect of the handback of assets.

Other elements of the CFR

4.5 Arlinglose recommends that unknown elements of the CFR are written off over 10 years. However, no MRP has been applied to these elements since 2018 and therefore Arlingclose recommends these are written off over the remaining 4 years.

5 Revised MRP Policy Statement

5.1 The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance:

- For capital expenditure incurred before 1st April 2008 MRP will be determined on an annuity basis using the 50-year PWLB annuity rate in 2007/08 (4.68%) assuming a remaining life of 34 years.

- The element of the CFR bult up from 1st April 2008 to 31st March 2017 will be written off over four years on an annuity basis using the PWLB 10-year annuity rate in 2018 (1.54%).

- For capital expenditure incurred after 31st March 2017 up to 31st March 2023, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis using the PWLB annuity rate in the year the expenditure was incurred, starting in the year after the asset becomes operational. 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.
- For PPP assets where the asset passes to the Authority at the end of the contract or the Authority continues to receive service benefit from the assets beyond the life of the contract, MRP will be determined over the remaining life of the assets on an annuity basis using the rates of interest implicit within the PPP schemes for the remaining life of the assets.

- For assets acquired by leases or through PPP contracts (where the asset does not pass to the Authority at the end of the contract or the Authority does not receive service benefits beyond the life of the contract), MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- For capital expenditure loans to third parties, the Authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, 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 on loans that are investments for commercial purposes, 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.

- MRP on transferred debt is provided for on an annuity basis in line with schedules sent to the Authority from the Lead authority administering the debt.

- Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

6 Financial Implications

6.1 Based on the Authority's capital financing requirement (CFR) at 31st March 2024, the charges for MRP under the revised and previous MRP policies is shown below:

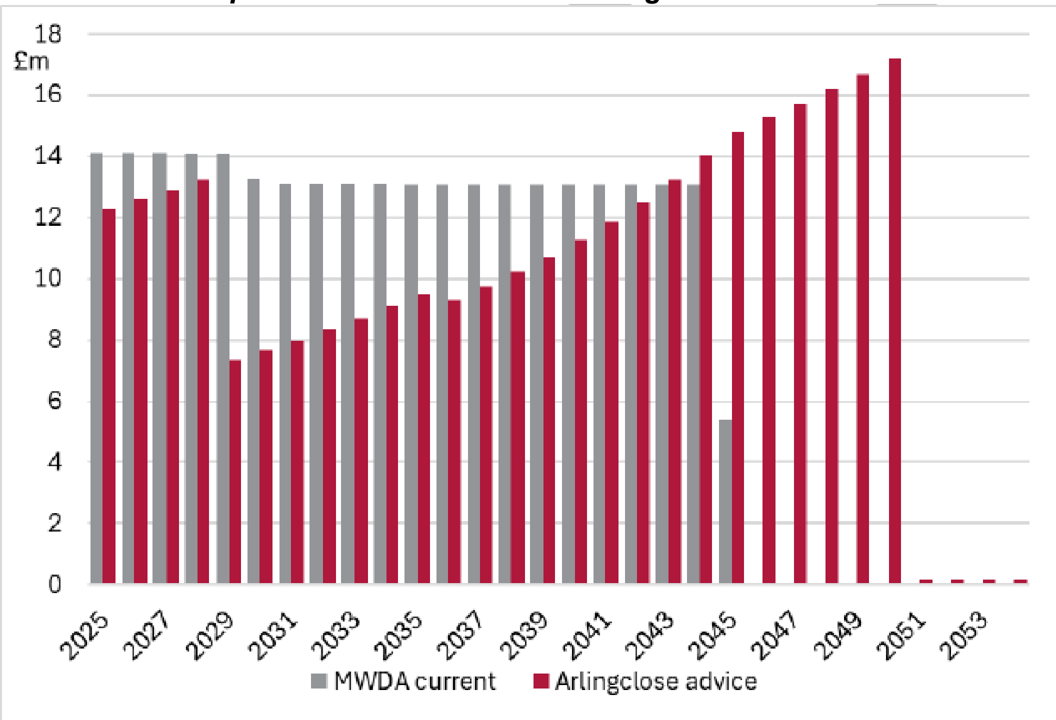
Table 1: Recommended charges for MRP £'000

MRP method	2025	2026	2027	'28 to '34	'35 to '44	'45 to '54	Later	Total
Annuity - pre-2008	51	53	56	469	993	1,570	858	4,050
Annuity - 2008 to 2020	8,785	8,920	9,058	9,216	0	0	0	35,979
Annuity - PPP	3,445	3,595	3,766	52,596	111,368	94,974	0	269,744
Total MRP charges	12,281	12,568	12,879	62,281	112,361	96,543	858	309,773
Future PPP capex								-49,760
CFR 31.03.2024								**260,013**

Table 2: Comparison of previously planned and recommended charges for MRP £'000

	2025	2026	2027	'28 to '34	'35 to '44	'45 to '54	Later	Total
MWDA current plans	14,100	14,093	14,087	93,813	130,674	5,967	1,061	273,794
Arlingclose advice	12,281	12,568	12,879	62,281	112,361	96,543	858	309,773
Saving/(cost)	**1,819**	**1,525**	**1,208**	**31,531**	**18,313**	**-90,576**	**203**	**-35,979**

Chart 1: Current planned vs advised MRP charges £'000



6.2 As can be seen, there are modest revenue savings over the first four years, arising from the change to the annuity rate on PPP liabilities - offset by the additional charge for the £36m 2008 to 2020 expenditure upon which no MRP was previously being made.

6.3 This provision in respect of the 2008 to 2020 expenditure is responsible for the overall increase in MRP charges between the previous method and the recommended one. However, new legislation and statutory guidance means that the additional charges in respect of the additional £36m would be required in any event.

6.4 Savings increase from 2028/29 as the PPP annuity savings continue but the additional charge for the £36m has been fully paid off.

6.5 The recommended approach starts to cost more than the current plan in 2042/43. This is particularly apparent in the six years after the RRC PPP contract ends. However, this increased cost is mitigated by:

- The proportion of the PPP costs relating to the repayment of debt incurred by the private sector will no longer be prevalent once the PPP contracts expire.
- Costs incurred in respect of new debt taken on to fund capital expenditure in the coming decade will be lower under the recommended policy.

Arlingclose Ltd:

Independent treasury management services

Review of Minimum Revenue Provision Policy and Practice

Merseyside Waste Disposal Authority

April 2025

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Review of Minimum Revenue Provision Policy and Practice – Merseyside WDA

1.0 Executive Summary

1.1 Minimum revenue provision (MRP) is the revenue charge for the original cost of capital expenditure. The authority has some discretion over the calculation of MRP charges, with an over-riding legal requirement for the annual charge to be "prudent".

1.2 The authority's current MRP policy is to use the reducing balance method for pre-2008 expenditure and the straight-line asset life method for expenditure incurred later, including on PPP schemes.

Current MRP

1.3 We have reviewed the council's calculation of MRP, which plans to make a total of £274m of MRP, the vast majority of this over the next 21 years. However, the capital financing requirement of £260m plus £50m of capital expenditure yet to be incurred total 310m, so there is a shortfall of £36m to be charged in addition to current plans.

1.4 We note that MRP on public private partnership (PPP) schemes is being made over the contract term, not the longer asset life, which is increasing costs.

1.5 We also note that MRP is being made on PPP lifecycle capital expenditure that has yet to be incurred, and for which the authority is therefore not yet benefiting.

Recommended MRP

1.6 We recommend using the annuity asset life method for all capital expenditure. This sees MRP charges increase as the interest cost reduces over time, leading to a broadly flat total charge for interest plus MRP on each asset over its useful life, similar to a repayment mortgage. It does not result in any total savings, since the same total capital expenditure must be financed, but it generates significant revenue savings in the early years.

1.7 Other changes include: spreading PPP MRP charges over the asset's useful lives, rather than the shorter contract term; taking a refund for MRP charges already made on future PPP lifecycle capital expenditure; and correcting for the £36m of past expenditure missing from the current MRP calculations.

1.8 The net impact is £56m of revenue savings for the first 18 years until 2042 compared to current plans, followed by £92m of net additional cost in later years, the difference being the missing £36m. The additional cost principally arises in 2044 to 2050 when the largest PPP contract has expired but the assets are expected to remain in use.

1.9 An accompanying spreadsheet gives full details of all our calculations.

2.0 Introduction

2.1 Minimum revenue provision (MRP) is the method by which the capital cost of debt-funded capital expenditure is charged to revenue, normally over the useful lives of the relevant assets. There is government guidance on the methods of calculating MRP.

2.2 To date, the authority has adopted a policy of calculating MRP as 4% of the capital financing requirement for expenditure incurred before 1st April 2008 in line with option 2 in the guidance, and on a straight-line asset life basis in line with option 3(a) of the guidance for expenditure incurred on or after that date.

2.3 Arlingclose has been commissioned to (a) review the authority's existing MRP calculation with reference to the current policy and (b) calculate the impact of changing policy, while remaining fully compliant with the government guidance, with a view to making revenue savings.

2.4 In preparing this report, we have relied upon a spreadsheet of capital expenditure and MRP since 2018 supplied by authority officers named "ck MRP, CFR + PPP liability calcs Apr 2004 ~ working v2".

2.5 We have used an unpublished draft balance sheet for 31.03.2024 included in the above spreadsheet as the baseline for our review. If there are relevant changes to the accounts during the audit process then the figures we provide may change.

2.6 This review has been undertaken without first considering the impact of the new IFRS 16 leases accounting standard. This will impact the MRP charges for PPP schemes, usually leading to additional revenue savings over the contract term.

3.0 Minimum Revenue Provision

3.1 Minimum revenue provision (MRP) is the method by which the capital cost of debt-funded capital expenditure is charged to revenue.

3.2 Local authorities have a legal duty to charge their General Fund with a prudent amount of MRP each year. Government MRP guidance defines prudence as aligning the period over which MRP is charged to one that is commensurate with the period over which the capital expenditure provides benefits.

3.3 The guidance provides a number of options for calculating prudent MRP but is clear that other calculations methods may also be considered prudent. Straight-line and annuity methods over the assets' useful lives are the most commonly used methods.

3.4 The annuity method is conceptually superior since it spreads the total capital financing costs (interest plus MRP) evenly over the asset life, similar to the principal and interest on a repayment mortgage, personal loan or finance lease. The straight-line approach keeps MRP itself even, but since interest costs reduce as the debt is paid off, it front-loads the total financing cost.

3.5 The guidance allows local authorities to change their MRP calculation methods going forward, but changes cannot be backdated to create an overpayment that results in a credit to the General Fund.

3.6 Arlingclose recommends calculating MRP on the annuity asset life method for most capital expenditure. Proxy asset lives can be used where no better information is available due to the passage of time.

4.0 Capital Financing Requirement

4.1 The concept of the capital financing requirement (CFR) was introduced by the Prudential Code in 2003. It reflects all the capital expenditure incurred by a local authority that has yet to be permanently financed. Debt (including PPP liabilities) may temporarily fund capital expenditure, but must eventually be repaid, leaving a requirement for permanent financing. MRP is the usual route of providing that financing.

4.2 The CFR therefore rises with debt-funded capital expenditure and reduces with MRP. Since MRP is calculated based on that expenditure, it provides the means for the CFR to eventually reach zero.

4.3 The Prudential Code defines the CFR as being calculated direct from the balance sheet. It is the sum of all the capital assets minus the balances on the Capital Adjustment Account and the Revaluation Reserve. This is effectively the entirety of all past capital expenditure minus all past capital financing.

4.4 The CFR calculation is shown in table 1 below for year end dates in 2008, 2018 and 2024.

Table 1: Calculation of the capital financing requirement

	31.03.2008 £000s	31.03.2018 £000s	31.03.2024 £000s
Property, plant and equipment	23,361	335,215	308,450
Capital Adjustment Account	-15,578	14,783	23,462
Revaluation Reserve	0	-10,962	-71,898
Actual CFR (per the balance sheet)	**7,783**	**339,036**	**260,014**

5.0 Existing MRP Calculation

5.1 MRP is being made on the 31.03.2008 CFR on a 4% reducing balance basis, in line with option 2 in the government guidance.

5.2 The authority entered into two PPP agreements in 2011/12 for £17.0m and in 2017/18 for £297.9m and has been making MRP on a straight line basis.

5.3 The CFR also increased by £35.9m between 2008 and 2018 for unknown reasons, and by small amounts in 2018/19 and 2019/20; no MRP has been made on these amounts.

5.4 The MRP methods currently in use are shown in table 2 below, reconciled back to the CFR.

Table 2: CFR split by MRP method

	31.03.2008 £000s	31.03.2018 £000s	31.03.2024 £000s
4% reducing balance	7,783	5,174	4,050
2008 to 2018 unknown, no MRP		35,918	35,918
Spend 2018/19, no MRP			20
Spend 2019/20, no MRP			41
Gilmoss MRF PPP		10,728	4,964
RRC PPP		287,216	215,020
Total CFR	**7,783**	**339,036**	**260,013**

5.5 Table 3 below shows the years over which the MRP is currently planned to be charged. Note that a balancing figure is needed to reconcile this to the CFR since the straight line MRP currently calculated for the resource recovery centre (RRC) PPP includes lifecycle capital expenditure for future years that has not yet been incurred and therefore is not yet in the CFR.

Table 3: Existing plan for MRP £'000

MRP method	2025	2026	2027	'28 to '34	'35 to '44	'45 to '54	Later	Total
Reducing balance	166	160	154	922	947	640	1,061	4,050
Straight line - PPP	13,933	13,933	13,933	92,890	129,727	5,327	0	269,744
Total MRP plans	14,100	14,093	14,087	93,813	130,674	5,967	1,061	273,794
Assets with no MRP plan								35,979
Future PPP capex								-49,760
CFR 31.03.2024								**260,013**

5.6 The above figures are all set out in detail on the "MRPbefore" page of the accompanying spreadsheet.

5.7 In the next section of this report, we advise on corrections for the assets with no MRP plan and the MRP already made on PPP lifecycle assets not yet acquired. We also show how a change of MRP policy can reduce the revenue cost of MRP for the authority.

6.0 Recommended MRP Calculation

6.1 We recommend making various changes to the authority's MRP policy and practice.

Pre-2008 expenditure

6.2 MRP is being made on the 31.03.2008 CFR on a 4% reducing balance basis, which is the basis upon which the government formerly provided revenue support grant to local authorities for the revenue cost of capital expenditure. Since the 2010-2015 coalition government's changes to the distribution of revenue support grant, the logic for making 4% reducing balance MRP no longer applies, although it remains part of the government guidance as option 2.

6.3 The reducing balance basis also suffers from the drawback that it never fully writes down the balance to zero. It therefore makes more sense for a pool of assets that is still being added to, rather than a closed pool.

6.4 Many local authorities have therefore moved away from the reducing balance method and now charge pre-2008 expenditure over an asset life basis, either using the straight-line or the annuity basis. Records of actual assets funded from borrowing tend not to be available, and therefore it is common to assume a 50-year asset life from 2008. This reflects the fact that the assets acquired were likely a combination of freehold land with an infinite useful life, building and infrastructure with approximately a 50-year life and vehicles and equipment with shorter lives.

6.5 We believe that the annuity method is technically superior to the straight-line method as described below.

6.6 We therefore recommend that the authority charges MRP on the remaining balance of its pre-2008 expenditure over 36 years starting in 2024/25 (equivalent to 50 years from 2008/09). The appropriate interest rate to use in the annuity formula is the average PWLB 50-year annuity rate in 2007/08, which was 4.68%.

Post-2008 expenditure

6.7 Ignoring the two PPP schemes for the time being, which we cover later, the authority increased its CFR by £35.9m between 2008 and 2018 for which no records are held and by a further £0.1m in 2018/19 and 2019/20.

6.8 Officers advise that the expenditure was most likely on equipment with an asset life of ten years. This leaves a maximum of four years remaining in 2024 for the pre-2018 expenditure.

6.9 We therefore recommend charging MRP on the annuity asset life basis over four, five and six years respectively for the pre-2018, 2018/19 and 2019/20 expenditure, using interest rates of 1.54%, 1.82% and 1.78% respectively, being the average PWLB annuity rates for ten year loans for those financial years.

Expenditure on PPP schemes

6.10 MRP is being made on the two PPP schemes on a straight-line basis over the contract lives. However, unlike a lease where the assets are usually returned at the end of the contract, with PPP schemes the authority retains the assets. MRP should therefore be spread over the longer asset life instead.

6.11 Officers have advised that the assets for both schemes are expected to remain in use for five year after the contracts end. MRP normally starts the year after the asset becomes operational and therefore the final charge can be made six years after the contract end date.

6.12 Again, the annuity basis is the most appropriate. With PPP schemes, the implicit interest rate in the leases can be used, which is 6.09% for the Gilmoss MRF and 3.02% for the RRC.

6.13 The PPP liability for the RRC scheme increases each year with lifecycle capital expenditure. The current MRP method spreads the entire MRP charge over a straight line, meaning that £11.5m MRP has been made in the past on expenditure that has not yet been incurred. We suggest correcting this as a reduction in the overall MRP charge over four years; this time period will offset the additional costs from the £35.9m unknown expenditure identified above.

6.14 Note that these calculations for the PPP schemes have been completed before consideration of the impact of the new IFRS 16 accounting standard. This is likely to result in more of the unitary charge being spread over the asset lives via MRP, leading to a further savings over the contract life.

Annuity method

6.15 An annuity is a contract that pays a fixed amount each year that includes both interest on the initial principal sum plus a partial return of that principal. Because the principal is being repaid over time, the interest cost, calculated as a fixed interest rate multiplied by the outstanding principal reduces over time. With the total annuity payment being constant, but the interest element reducing, the principal element therefore increases over time.

6.16 Repayment mortgages, personal loans and finance leases are all common examples of annuities. The straight-line of equal instalments method is simpler to calculate on paper, but the ubiquitous use of spreadsheets now limits that advantage.

6.17 The government guidance on MRP includes the annuity asset life method as one of the ready-made options for calculating MRP. We believe it is superior to the straight-line method, since it provides for a flat capital financing cost when both MRP and interest payable are considered. Using the straight-line method on the other hand means that the capital financing cost starts higher and falls over time, when in practice the effect of inflation means that the council's ability to meet that cost is more likely to rise than fall over time.

6.18 To calculate an annuity, a suitable interest rate must be chosen. For assets funded from borrowing, we recommend using the average PWLB rate for new annuity loans with a term equal to the useful asset life in the year of the capital expenditure, with the certainty rate discount deducted where appropriate. This broadly reflects the council's interest cost as the expenditure is incurred. For finance leases and PPP liabilities, we recommend using the interest rate implicit in the lease.

6.19 In line with government guidance for changing methods on past expenditure, the revised calculation starts with the outstanding CFR for each asset at 31st March 2024 and uses the annuity method going forward over the remaining useful life. Previous years' MRP has not been recalculated.

6.20 This does not create an overall revenue saving, since the same outstanding CFR is charged over the same useful life. But it creates savings in earlier years at the expense of higher costs in later years. As explained above, this is entirely appropriate since the interest cost for each asset will be reducing at a broadly equivalent rate, and is fully in line with government guidance.

Impact of change

6.21 Our recommended MRP charges are summarised in table 4 below, and shown in detail on the "MRP after" page of the accompanying spreadsheet. A comparison of the current planned and recommended MRP charges are shown in table 5 and chart 1 below.

Table 4: Recommended charges for MRP £'000

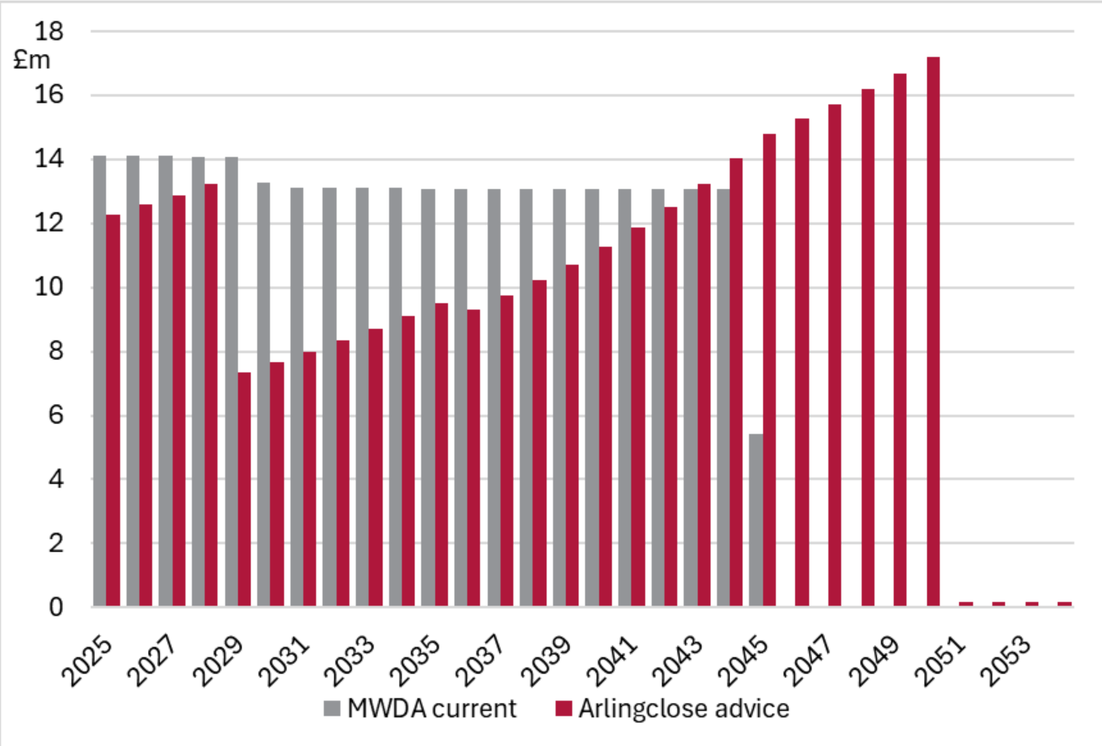
MRP method	2025	2026	2027	'28 to '34	'35 to '44	'45 to '54	Later	Total
Annuity - pre-2008	51	53	56	469	993	1,570	858	4,050
Annuity - 2008 to 2020	8,785	8,920	9,058	9,216	0	0	0	35,979
Annuity - PPP	3,445	3,595	3,766	52,596	111,368	94,974	0	269,744
Total MRP charges	12,281	12,568	12,879	62,281	112,361	96,543	858	309,773
Future PPP capex								-49,760
CFR 31.03.2024								**260,013**

Table 5: Comparison of current planned and recommended charges for MRP £'000

	2025	2026	2027	'28 to '34	'35 to '44	'45 to '54	Later	Total
MWDA current plans	14,100	14,093	14,087	93,813	130,674	5,967	1,061	273,794
Arlingclose advice	12,281	12,568	12,879	62,281	112,361	96,543	858	309,773
Saving/(cost)	**1,819**	**1,525**	**1,208**	**31,531**	**18,313**	**-90,576**	**203**	**-35,979**

6.22 The £36m total increase in our advised charges relates the capital expenditure incurred between 2008 and 2020 upon which no MRP is currently being made. The law was changed in 2024 to ensure that local authorities make MRP on their entire CFR and do not exclude any elements of the CFR from the MRP calculation.

Chart 1: Current planned vs advised MRP charges £'000



6.23 As can be seen, there are modest revenue savings over the first four years, arising from the change to annuity rate on PPP liabilities and the refund for MRP already made on future lifecycle expenditure, offset by the additional charge for the £36m 2008 to 2020 expenditure upon which no MRP was being made.

6.24 Savings increase from 2028/29 as the PPP annuity savings continue but the additional charge for the £36m has been fully paid off.

6.25 The recommended approach starts to cost more than the current plan in 2042/43. This is particularly apparent in the six years after the RRC PPP contract ends, when the authority was planning to use the PPP assets without needing to make any MRP charge, having fully charged it over the contract lief instead.

6.26 This analysis looks only at capital expenditure already incurred by the authority, plus the planned PFI lifecycle works. The authority is likely to incur additional capital expenditure funded from borrowing in future financial years, and changing policy to the annuity method will therefore result in additional savings to those shown above.

6.27 Example savings on MRP in the first year are shown below for different asset lives, based on £1 million capital expenditure and forecast PWLB rates for 2025/26. However there is no overall saving over the whole asset life, since the full amount spent must be charged as MRP over the asset life.

Table 6: First year MRP charge on £1m capital expenditure under different calculation methods

Asset life	Annuity rate	Annuity MRP	Straight-line MRP	Year 1 saving
5 years	4.50%	182,792	200,000	17,208
10 years	4.75%	80,437	100,000	19,563
20 years	5.40%	28,986	50,000	21,014
30 years	5.85%	12,987	33,333	20,347
40 years	5.95%	6,543	25,000	18,457
50 years	5.95%	3,502	20,000	16,498

7.0 Next Steps

7.1 Our calculations are based on the authority's unpublished draft 2023/24 balance sheet. The March 2024 CFR should be checked against the final audited accounts when these are available.

7.2 Once any internal approvals have been received, a revised MRP policy should presented to a meeting of the authority for approval during 2024/25 with the change to the asset life annuity method.

7.3 The budget and medium term financial plan should be updated to include the projected savings on MRP in the current and future years.

7.4 The affordability of future capital plans should be assessed based on annuity rather than straight-line MRP.

7.5 We are happy to give a short presentation to officers and members if this would assist in any way.