Appendix J

Minimum Revenue Provision – 2024/25

1. Where the Council 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 Council 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.

2. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonable 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.

3. The Guidance requires Full Council (or a delegated body) to approve an MRP policy statement in advance of each financial year and recommends a number of options for calculating a prudent amount of MRP.

4. In accordance with the current guidance for the calculation of MRP the following policy for non-HRA assets will be applied with effect from 1 April 2024:

    a. For supported borrowing, the Council will use the asset life method (Option 3) and an 'annuity' approach for calculating repayments. Based on the useful economic lives of the council's assets, a single annuity has been calculated, which results in the outstanding principal being repaid over the course of fifty years. The interest rate applied under this approach is 5.00% (fixed for the duration of the debt).

    b. For prudential borrowing incurred after 1 April 2008, the Council will adopt Option 3, 'the asset life method', and an 'annuity' approach for calculating repayments. This option allows provision for repayment of principal to be made over the estimated life of the asset, stated in Table 1, and using an interest rate equal to the average relevant PWLB rate for the year of expenditure. The use of the 'annuity' method is akin to a mortgage where the combined sum of principal and interest are equalised over the life of the asset.

5. Where the PWLB rate is unknown the MRP for future years prudential borrowing will be based on the assumed rate of borrowing for the respective asset.

6. 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.

7. For existing assets MRP is charged in the financial year following the one in which the expenditure was incurred.

8. For newly constructed assets that have been financed through borrowing, MRP commences in the financial year following the year the asset first becomes operational. “Operational” is defined as when an asset transfers from “Assets under Construction” categorisation to an “Assets in Use” category under normal accounting rules.

9. In accordance with Regulations the Council reserves the right to charge a £nil MRP where:

    a) the Capital Finance Requirement (CFR) is nil or negative on the last day of the preceding financial year; or

    b) an overpayment has occurred in the previous financial year equivalent to the current year’s charge. Where an offset of the previous years overpayment takes place this will be disclosed and reported to Full Council at the earliest opportunity.

10. For capital expenditure loans to third parties that are repaid in annual instalments the Council will make nil MRP and will use the capital receipt arising from the principal repayments to reduce the CFR unless where:

    (a) No loan capital repayments have been received by the Council in year thus requiring a MRP charge equivalent to the loan repayment;

    (b) the loan is an investment for commercial purposes and no repayment was received in year; or

    (c) an expected credit loss was recognised or increased in-year.

11. 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. Sufficient MRP will be charged to ensure that the outstanding CFR on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the Council's view is consistent with the current regulations.

12. For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

13. Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

14. MRP will include a charge equal to any capital lifecycle additions within the lease.

15. No MRP will be charged in respect of assets held within the Housing Revenue Account but depreciation on those assets will be charged instead in line with regulations.

16. No MRP charge is made where a capital receipt is available to apply to repay debt if the capital receipt is equal to or greater than the intended MRP payment had a capital receipt not existed.

17. The Council reserves the right to make a voluntary MRP to accelerate the repayment of debt.

18. The asset lives which will be applied to different classes of assets are shown in table 1, however, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Table 1: Asset lives

Asset Type	**Years**
Vehicles and equipment	5 to 10 years
Highway Infrastructure Assets	25 years
Acquisition of or enhancement to buildings	30 to 40 years
New construction	60 years
Purchase of land	50 years

19. Asset lives will only exceed the maximum useful life of 50 years as stated under the Regulations for debt write down in two scenarios:

    (a) where the Council has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years then the life suggested by its professional advisor will be used; and

    (b) for a lease or PFI asset, where the length of the lease/PFI contract exceeds 50 years. In this case the length of the lease/PFI contract will be used.

20. Based on the Council’s latest estimate of its capital financing requirement (CFR) on 31st March 2024, the MRP budget for 2024/25 has been set at £18.2m.