**Appendix J**

## Minimum Revenue Provision (MRP) Statement – 2026/27

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 Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in April 2024.

2. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is reasonable commensurate with that over which the capital expenditure provides benefits.

3. The MHCLG Guidance requires Full Council (or a delegated body) to approve an MRP policy statement in advance of each financial year and recommends several options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods.

4. MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Council's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 Edition.

5. 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 2026:

    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 Annuity 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.

6. 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.

7. 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.

8. MRP is charged in the financial year following the one in which the expenditure was incurred. Capital expenditure incurred during 2026/27 will not be subject to a MRP charge until 2027/28 (or later depending on when the asset becomes operational).

9. 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.

10. 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 year’s overpayment takes place, this will be disclosed and reported to Full Council at the earliest opportunity.

11. In accordance with the 2024 revised Guidance, for capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

12. For capital expenditure on loans to third parties which were made primarily for service purposes, the Council will make nil MRP except as detailed below for expected credit losses. Instead, the Council will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

13. For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

14. For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

15. 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.

16. 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 overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

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

18. 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.

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

20. 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.

**Appendix J**

**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 | 50 years |
| Purchase of land | 50 years |

21. 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.

22. Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Council decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

    - Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.

    - Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.

    - Capital receipts arising from other assets which form an identified part of the Council's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.

- Any other capital receipts applied to repay debt will be used to reduce MRP in ten equal instalments starting in the year after receipt is applied.

23. Based on the Council's latest estimate of its capital financing requirement (CFR) on 31st March 2026, the MRP charge for 2026/27 on prudential borrowing; PFI schemes; and leases has been set at £30.3m.