APPENDIX 3

Minimum Revenue Provision (MRP) Policy 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 Department for Levelling Up, Housing and Communities (DLUHC) guidance most recently issued in 2018.

2. The broad aim of the DLUHC 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 funding or other income.

3. Under the guidance local authorities are required to prepare an annual statement of their policy on making MRP to Full Council. The guidance distinguishes between borrowing for capital expenditure which was previously supported by the government through the Revenue Support Grant system prior to 1 April 2008 and borrowing subsequent to this date where local authorities can use their prudential borrowing powers.

4. For capital expenditure incurred prior to 1 April 2008, authorities are allowed to continue to apply the 4% MRP based on the level of borrowing. The guidance provides two options for carrying out this calculation. Option 1, 'the regulatory method', is to continue to use the calculations that were used under the system that existed from 2004/05 when the previous regulations came into effect. This means that the amount of non-housing Capital Financing Requirement (CFR), adjusted as set out in the original regulations (Adjustment A'), is used as the starting position for the MRP calculation in 2008/09 and adjusted thereafter for supported borrowing in each year. Option 2, the CFR method, is similar to Option 1 but does not include any adjustments to the CFR.

5. For new borrowing under the Prudential system, councils are required to adopt one of two further options for determining a prudent amount of MRP. Option 3, which is 'the asset life method', allows councils to make provision for repayment of principal over the estimated life of the asset. This can be done using the 'equal instalment' method, where equal amounts of principal are paid each year, with reducing interest payments as debt is repaid, or the 'annuity' method, which is akin to a mortgage where the combined sum of principal and interest are equalised over the life of the asset. Option 4, which is the 'depreciation method', involves making Minimum Revenue Provision in accordance with the standard rules of depreciation accounting. This means setting aside an amount each year in line with estimated annual depreciation until the total initial debt is provided for.

6. The MRP policy proposed for non-HRA assets is as follows:

   a. For capital expenditure prior to 1 April 2008, it is proposed that the Council adopts ‘the regulatory method’ (Option 1). Option 1 leads to a lower level of MRP than Option 2 and avoids the Council having to make complex calculations for all its assets which it would have to do if Options 3 or 4 were adopted for supported borrowing.

   b. For subsequent prudential borrowing incurred post 1 April 2008, it is proposed that the Council adopts Option 3, ‘the asset life method’, and that an ‘annuity’ approach is used for calculating repayments. This ensures payments are spread equally over the life of the asset, which matches more closely the value the Council gets from the asset than loading payments in the early years of the asset life as would happen under the equal instalment method. It is also considered that this option is more cost effective as provision is not required until the year following actual capital expenditure.

   c. For assets acquired to rehouse families affected by the Grenfell Tower fire, a direction was given by the Secretary of State to hold these properties within the General Fund rather than the HRA. Previous MRP policies agreed by Full Council treated these assets in the same way social housing assets in the HRA would be treated and no MRP provision was made. Plans are in place to transfer these social rent properties to the HRA but this will be undertaken in phases. The first phase of 33 properties to transfer was agreed by Leadership Team in December 2021, the transfer took place on 1 January 2022. Any properties held in the HRA will be subject to NIL MRP provision in line with this policy. Those properties retained in the General Fund will be subject to MRP provision in line with this MRP policy up to the time of any transfer to the HRA.

   d. For assets acquired by leases or the Private Finance Initiative and for the transferred debt from the council, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

   e. For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, 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, 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. While this is not one of the options in the DLUHC Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

7. No MRP will be charged in respect of assets held within the Housing Revenue Account. The duty to make MRP in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 does not apply to HRA assets.

8. The proposed asset lives which will be applied to different classes of assets are as follows:

- Vehicles and equipment: 5 to 15 years;
- Capital repairs to roads and buildings: 15 to 25 years;
- Purchase of buildings: 30 to 40 years;
- New construction: 30 to 40 years;
- Purchase of freehold land: 50 years

a. The guidance also requires that the life of the asset is determined in the year in which it is acquired and is not varied subsequently. The requirement to make MRP does not commence until the asset becomes operational. The guidance also sets out the approach to be taken to specific expenditure types which do not fall within the general categories above, including spending capitalised under directions issued by the Secretary of State, capital grants to other organisations and individuals and so on. Details of the maximum asset life that can be applied in these cases are set out in the table below:

Table 11 Asset Life for Specific Assets Set Out in Guidance

Expenditure Type	**Maximum Value of Asset Life**
Expenditure capitalised by virtue of a direction by the Secretary of State	20 years
Expenditure on computer programs	The life of computer hardware
Loans and grants towards capital expenditure by third parties	The estimated life of the assets in relation to which the third-party expenditure is incurred
Repayment of grants and loans for capital expenditure	25 years, or the period of the loan if longer
Acquisition of share or loan capital	20 years
Expenditure on works to assets not owned by the authority	The estimated life of the assets
Expenditure on assets for use by others	The estimated life of the assets
Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	25 years