Appendix 3

Minimum Revenue Provision (MRP) Statement and Policy 2025/26

1. Prudential borrowing increases the Council's Capital Financing Requirement (CFR) or underlying need to borrow. Whether the Council actually borrows externally to finance capital expenditure is a treasury management decision which is not directly linked to the capital financing decision. In practice, the Council is likely to use a combination of internal and external borrowing in the medium term to fund the Capital Programme. The amount of external borrowing undertaken will depend on the borrowing requirement compared to the projected level of cash balances. The Council is required to make a prudent charge to its revenue account for borrowing, whether that borrowing is financed internally or externally. This charge is known as the Minimum Revenue Provision (MRP) and reflects the repayment cost of principal borrowed.

2. Regulations require the Council to approve an MRP policy on an annual basis and to calculate in each financial year an amount of MRP that it considers to be prudent. In doing this, the Council has to pay regard to governmental statutory guidance on MRP. MRP is not charged until the financial year after the expenditure has been incurred and the asset being financed has become operational.

3. The current draft guidance on Minimum Revenue Provision, which is subject to consultation at the time of writing, requires that reference is made to the statute within the MRP policy. Since amendments to The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, currently published as The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2023 (the regulations), are also out to consultation alongside the guidance, reference is made to the draft guidance and regulations.

4. It is recommended that the same MRP methodologies continue to be adopted for 2025/26:

   a) For borrowing incurred before 1 April 2008 the practice of making a 4% annual charge on the reducing balance will apply in line with option 2 outlined in the Ministry of Housing Communities and Local Government guidance,

   b) For borrowing that relates to the assets transferred from the Housing Revenue Account (HRA) to the General Fund (GF), MRP will be based on the estimated useful life of the assets, taking into account the number of years, using option 3 the Asset Life Method, the assets have been in existence, and previous funding allocated to them.

   c) There will be no annual MRP charge made for the following items where they are deemed to be capital under s25(b) / s25(d) of The Local Authorities Capital Finance and Accounting (England) Regulations 2003 and where it is anticipated the investment will be repaid in full in line with Regulation 27 (4):

i. The Council's investments in a Directly Managed Property Fund which were made for service reasons;
ii. Loans to other organisations, such as a company in which the Council has an interest;
iii. Treasury management investments undertaken in accordance with section 12 of the Local Government Act 2003;
iv. Borrowing related to capital expenditure incurred on assets which are to be leased out; and
v. Other borrowing related to expenditure where it is anticipated the investment will be repaid in full.

The repayment to the Council for these will be a capital receipt of which the Council will set aside the amount for which borrowing was used in order to repay that borrowing in line with regulation 28 (3) and (5). Each item where there is no annual MRP charge will be reviewed on at least an annual basis and if there is a likelihood of capital loss, a prudent MRP provision will then be made. Although this aspect of the policy is still considered to be prudent it is this element that the Government is looking to make changes to which could require an annual MRP charge regardless of whether loan agreements are in place to repay the loans.

d) For all borrowing incurred after 1 April 2008 relating to expenditure other than that which is covered in c) above, the MRP will be charged using Option 3: Asset Life Method. MRP will be based on the estimated life of the asset and will be charged to the revenue account in equal instalments over the life of the asset. Where the Group Finance Director, in their capacity of section 151 officer, is comfortable that the asset or the income arising from that asset is appreciating over time, MRP will be based on an annuity charge over the estimated life of the asset. Applying the annuity method results in an annual charge to revenue which takes account of the time value of money. The charges made through the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the annual charges when they fall due.

e) For finance leases as a lessee taken out on behalf of the General Fund, the council will charge MRP to its General Fund each year dependant on the life of the underlying asset. This will ensure that the full cost of leasing the asset is borne by the General Fund revenue account.