

## 1.0 Introduction

1.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of the Capital Financing Requirement (CFR) from its calculation, unless by an exception set out in statute.

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2024) gives four ready-made options for calculating MRP. A mix of these options can be used if considered appropriate.

The MRP policy statement requires full Council approval in advance of each financial year.

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.

## 2.0 MRP Policy - General

2.1 The following statement incorporates options recommended in the Guidance;

2.2 From 1<sup>st</sup> April 2008 for all unsupported borrowing the MRP policy will be;

**Asset life method (annuity)** – MRP will be based on the estimated life of the assets;

2.3 Regulation 27(3) of the 2003 regulations allow councils to charge MRP in the financial year following the one in which capital expenditure financed by debt was incurred. Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27. Or in the year after the asset becomes operational for instance if the asset is added to the Assets Under Construction category of property, plant and equipment.

2.4 The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

### **3.0 MRP Policy – Leases**

3.1 The adoption of International Financial Reporting Standard 16 has introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value. When such lease contracts and the related assets and liabilities are brought onto the balance sheet, a local authority will increase its long-term liabilities and as a result this will increase the debt liability.

3.2 Generally accepted accounting practice requires these changes to be accounted for retrospectively, with the result that an element of the rental or service charge payable in previous years (and previously charged to revenue accounts) will be taken to the balance sheet to reduce the liability. On its own, this change in the accounting arrangements would result in a one-off increase to the CFR and an equal increase in revenue account balances.

3.3 This is not seen as a prudent course of action and the guidance aims to ensure local authorities are in the same position as if the change had not occurred. It does this by recommending the inclusion in the annual MRP charge of an amount equal to the amount that has been taken to the balance sheet to reduce the liability, including the retrospective element in the first year.

3.4 Regarding MRP in respect of assets acquired either under leases where a right-of-use asset is on the balance sheet or where on-balance sheet PFI contracts are in place, the prudent charge to revenue can be measured as being equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off-balance sheet. The MRP requirement is regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.

### **4.0 MRP Policy – Investment Property**

4.1 The duty to make MRP extends to investment properties where the acquisition results in an increase to the CFR. A council cannot exclude any

proportion of its debt liability from the determination of a prudent MRP charge on the basis that the debt is associated with an investment asset that the authority believes will retain or increase in capital value.

- 4.2 MRP on investment properties will be calculated using the general MRP Policy in paragraph 2.0.

## **5.0 MRP Policy – Capital Loans to Other Organisations**

- 5.1 Regulation 27(4) allows a local authority to exclude capital loans that are financed by debt from the requirement to make MRP, provided the loan is not a commercial loan. A commercial loan is defined in regulation 27(5) as a loan from the authority to another entity for a purpose which, if the authority were to undertake itself, would be primarily for financial return; or, where the loan is itself capital expenditure undertaken primarily for financial return. Local authorities must make MRP with respect to any debt used to finance a commercial capital loan.
- 5.2 A local authority may choose not to charge MRP in respect of the financing by debt of a loan issued by an authority to any person or body, where —
  - (a) the loan is treated as capital expenditure in accordance with regulation 25(1)(b),
  - (b) the loan is not a commercial loan, and
  - (c) the local authority has not recognised, in accordance with proper practices(c), any expected or actual credit loss in respect of that loan.
- 5.3 For capital expenditure on loans to third parties where the principal element of the loan has been repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.
- 5.4 Where no principal repayment is made in a given year, MRP will be charged using the general MRP Policy in paragraph 2.0.

## **6.0 MRP Policy – Share Capital**

- 6.1 Where an Authority incurs expenditure that is capitalised on or after April 2008, which is financed by borrowing for the acquisition of share capital, Regulation 25(1)(d) Acquisition of share capital sets out the maximum period for an authority to provide MRP of 20 years.

## 7.0 MRP Overpayments

7.1 Under the MRP guidance, charges made in excess of the statutory MRP can be made and are known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made to 31.03.25 are **£0**.

The Minimum Revenue Provision (MRP) for the proposed capital programme included within the Capital Strategy is shown in the table below

	2025/26 Actual £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m
<b>MRP</b>	2.861	3.350	3.943	4.115	4.279