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Annual MRP Statement 2024-2025

Minimum Revenue Provision – an introduction

1. What is Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. In accordance with proper practice, the financing of such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual charge known as Minimum Revenue Provision (MRP), which is determined by the Council under guidance.

2. Statutory duty

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4) lay down that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

3. Government guidance

Along with the above duty, the Government issued guidance which came into force on 31 March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the Full Council for approval before the start of the financial year to which the provision will relate. On 2 February 2018 the Department for Levelling Up, Housing and Communities (DLUHC) issued its new Statutory Guidance on Minimum Revenue Provision which is effective from 1 April 2019, except for the elements 'Changing Methods for Calculating MRP' which applied from 1 April 2018. This new guidance supersedes the previous versions. The main changes of the guidance are the introduction of a maximum useful economic life which should normally not exceed 50 years, MRP to be charged for all borrowings and defining what can be classed as an 'overpayment' thereby removing the option to retrospectively change the method of calculating MRP in prior years.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. Although it is up to each Council to determine for itself how to calculate its MRP, the guidance suggests four methodologies, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that:

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1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

In December 2023 DLUHC issued a ‘Consultation on changes to statutory guidance and regulations: Minimum Revenue Provision’ which detailed the proposed wording of its new statutory guidance, which is the outcome of various earlier consultations dating back to November 2021. The purpose of the new guidance is to make the regulations more explicit with regards not being able to exclude a proportion of debt from the MRP calculation and the use of capital receipts in place of the MRP charge to the revenue account. With a consultation closing date of 16 February 2024, the new guidance is effective from 1 April 2024.

In addition to the explicit wording, the consultation also detailed what should be covered in the MRP Statement as a minimum, in order to provide transparency and accountability. It also stipulated how the four options (mentioned in the paragraph above) should be applied to supported borrowing and prudential borrowing. This is a change from guidance previously issued. The four options are:

- Option 1: Regulatory Method – the MRP is determined in accordance with the former regulations before the 2008 amendments.
- Option 2: CFR Method – MRP is equal to 4% of the General Fund capital financing requirement at the end of the preceding financial year.
- Option 3: Asset Life Method – MRP is determined by reference to the useful life of the asset. There are two main methods of achieving this: using an equal instalment method or the annuity method.
- Option 4: Depreciation Method – MRP is equal to the provision required in accordance with depreciation accounting in respect of the asset.

The guidance now proposes that options one and two can only be used in relation to capital expenditure incurred before 1 April 2008 funded by supported borrowing, with options three and four being for expenditure incurred on or after 1 April 2008 i.e. funded by prudential borrowing. Any departure from the guidance requires an explanation in the MRP statement as to why the adopted approach results in a more prudent charge.

Information from Link Group highlights that many local authorities use option three or four for supported borrowing. The Council currently applies the option three, Asset Life - Annuity Method, to calculate it’s MRP charge and doesn’t differentiate between its supported and prudential borrowing.

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4. Timing

This statement shall take effect from 1 April 2024, unless an alternative date is stated below, and shall take precedence over any statements previously approved.

5. Calculation

MRP shall be calculated by adding together the amount calculated using the method as stated below i.e. asset life, annuity method as in previous years.

Method

To be used for all capital expenditure taking into account only capital expenditure and financing decisions, and the classification of fixed assets, reflected in the Council's accounts for the preceding year.

With the variations set out below, MRP will be calculated, on an individual fixed asset basis (unless they are land or community assets (no depreciation), where it is capitalised under statute/direction (equal pay, REFCUS etc.) or when one grouped "asset" is created for MRP calculation purposes for each category for individual years), in accordance with the annuity method, whereby MRP for each year will be the amount presumed to be the principal element of the equal amounts that would be payable each year in respect of a loan at the specified rate of interest that would reduce the outstanding principal amount to zero at the end of the estimated useful life.

The specified rate of interest will be the average interest rate of the Council's debt as at the end of the year preceding the first year in which the annuity rate is to be applied. Where the interest rate on debt is variable, the rate to be used in calculating the average shall be the interest rate on the debt at 31 March of the year for which the average is being calculated.

MRP will thus be calculated in accordance with the following formula:

PPMT (A, B, C, D) + E

Where

PPMT is the PPMT financial function in Microsoft Excel 2010

A is the specified interest rate

B is the number of years (including the current year) for which MRP has been charged on an annuity basis

C is the useful economic life (UEL) of the asset as at the start of the year for which MRP is first charged on an annuity basis. C shall be equal to the useful life of the fixed asset in question, as estimated by the Council but in accordance with the new maximum UEL in the Guidance. C shall not be varied for changes in the useful life of the asset unless the Council considers that special circumstances apply that would mean that a change would result in MRP being more reasonably calculated on a prudent basis.

D is the total need to borrow for capital purposes (resulting from capital expenditure).

E is an amount determined by the Section 151 Officer. The cumulative total of E, taken across all past and current years, shall never be less than zero. The choice to make an overpayment of MRP requires a separate disclosure in the MRP Statement presented to full Council detailing the in year and cumulative amount. Subsequently, any offsetting of an overpayment also requires disclosure in the MRP Statement along with any remaining cumulative amount to full Council.

The Method shall be varied in the following circumstances:

1. Where an asset is under construction, the method above will commence once the asset becomes operational.

2. For historical Magistrates' Courts Loan Charges, 4% charge will be made.

3. With regard to PFI and leases the MRP will be charged in accordance with the financial model imbedded in the legal agreements.

4. For capitalised expenditure, the variable "C" should be given the maximum values as set out below in accordance with the Guidance. This is based on the principle that where the capitalised expenditure can be indirectly linked to an asset the estimated UEL should be used, however, where this is not the case a default of 25 years will apply.

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Expenditure type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a **direction under s.16(2)(b)**	"C" equals 20 years.
Regulation 25(1)(a) Expenditure on computer programmes	"C" equals the shorter of the UEL of the hardware or the length of the software license.
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the UEL of the assets for in relation to which the third party expenditure is incurred.
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years or the period of the loan if longer.
Regulation 25(1)(d) Acquisition of share capital	"C" equals 20 years.
Regulation 25(1)(e) Expenditure on works to assets not owned by the authority	"C" equals UEL of the assets.
Regulation 25(1)(ea) Expenditure on assets for use by others.	"C" equals UEL of the assets.
Regulation 25(1)(f) Payment of levy on large scale voluntary transfers (LSVT) of dwellings	"C" equals 25 years.

In the event that the Council has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years, it will use the life suggested by the professional advisor.

6. Conclusion

The methodology is mainly the same as in previous years with slight amendments to reflect the removal of the capital receipt element (which was available and only used with regard to Help To Own) and the annual assessment of security for capital expenditure on acquisition of share capital to inform whether MRP will be charged. The latter related to only the Help To Own scheme and MRP will now be charged annually, in accordance with the new guidance (approximately £200,000 per annum).

MRP is being charged on all borrowing applied to fund capital expenditure.

The Council will continue to use option three for supported borrowing, it is felt using the life of asset results in a more prudent charge and reflects the ‘usage’ of the asset and provides an official end date for MRP charges. The options stipulated by the guidance result in MRP for an excessive number of years and surpass the life of the asset.

As in previous years, capital receipts are directly applied to fund capital expenditure and therefore there is no allowance in the MRP calculations for receipts being used to repay debt.

There is no voluntary overpayment of MRP proposed for 2024-2025.

At the time of writing the MRP Statement 2024-2025, the outcome of the consultation was not known, therefore, once the guidance has been officially released the statement will be reviewed to ensure it is still appropriate and prudent.