Appendix H.4

Minimum Revenue Provision Statement

1. Annual Minimum Revenue Provision Statement 2025/26

1.1. Where the Council finances capital expenditure by debt, it must set 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 former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

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, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.3. The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

1.4. The statutory guidance on MRP outlines 4 ready-made options for calculating prudent provision:

- Option 1 – Regulatory Method
- Option 2 – CFR Method
- Option 3 – Asset Life method a and b
  - Option 3a –Straight Line
  - Option 3b –Annuity
- Option 4 – Depreciation Method

Options 1 and 2 can only be used for capital expenditure incurred prior to 1 April 2008 (supported capital expenditure).

1.5. For supported and unsupported capital expenditure incurred on fixed assets and not acquired under a finance leasing arrangement, MRP will be determined using option 3b (Annuity method) of the statutory guidance on MRP starting in the year after the asset becomes operational.

1.6. For option 3b, under statutory guidance:

- “MRP is the principal element for the year of the annuity required to repay over the asset’s useful life the amount of capital expenditure financed by borrowing or credit arrangements, using an appropriate rate of interest." In simpler terms, this is equivalent to the MRP charge matching the capital repayment profile of a mortgage or a finance lease arrangement, with payments taking place over the life of the asset and using an appropriate rate of interest to determine the annual amount.

- Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g., by the application of capital receipts) will be made as necessary.

1.7. As external debt balances cannot be directly linked to specific capital expenditure (external debt is a Treasury Management function) the council has determined an appropriate interest rate to be the Public Works Loans Board (PWLB) rate available for an annuity-based loan, with a repayment lifetime that matches the estimated useful life of the underlying asset. The PWLB rate used is taken from the PWLB website. Indicative annuity rates used in the Council’s MRP calculation are shown below which are then further reduced by 0.2% for use in the MRP calculation, in accordance with the borrowing discount available to Local Authorities:

PWLB Borrowing Rates Publication Date/Time	Year	Loan Term / Asset Life				
		10	20	30	40	50
28/03/2024 12:45:07	2023/24	4.83	5.04	5.35	5.42	5.39
31/03/2023 12:09:11	2022/23	4.47	4.60	4.87	4.90	4.83
31/03/2022 12:28:36	2021/22	2.46	2.67	2.84	2.85	2.79
31/03/2021 12:15:29	2020/21	1.41	1.95	2.24	2.37	2.38
31/03/2020 12:30:37	2019/20	2.15	2.36	2.67	2.83	2.84
29/03/2019 12:13:42	2018/19	1.76	2.09	2.43	2.59	2.58
29/03/2018 12:15:36	2017/18	2.07	2.48	2.70	2.77	2.74
31/03/2017 12:15:17	2016/17	1.48	2.18	2.62	2.79	2.77
31/03/2016 12:15:22	2015/16	1.86	2.56	3.06	3.29	3.30
31/03/2015 12:15:32	2014/15	2.12	2.71	3.06	3.28	3.33
31/03/2014 12:15:23	2013/14	2.98	3.97	4.36	4.50	4.53

Change of MRP Approach

1.8. Adopting option 3b for fixed assets represents a change of approach for the council, having previously inherited several different methodologies from legacy arrangements. These include:

- Option 2 CFR Method
- Option 3a Asset life, equal instalment

- Option 3b Asset Life, annuity method

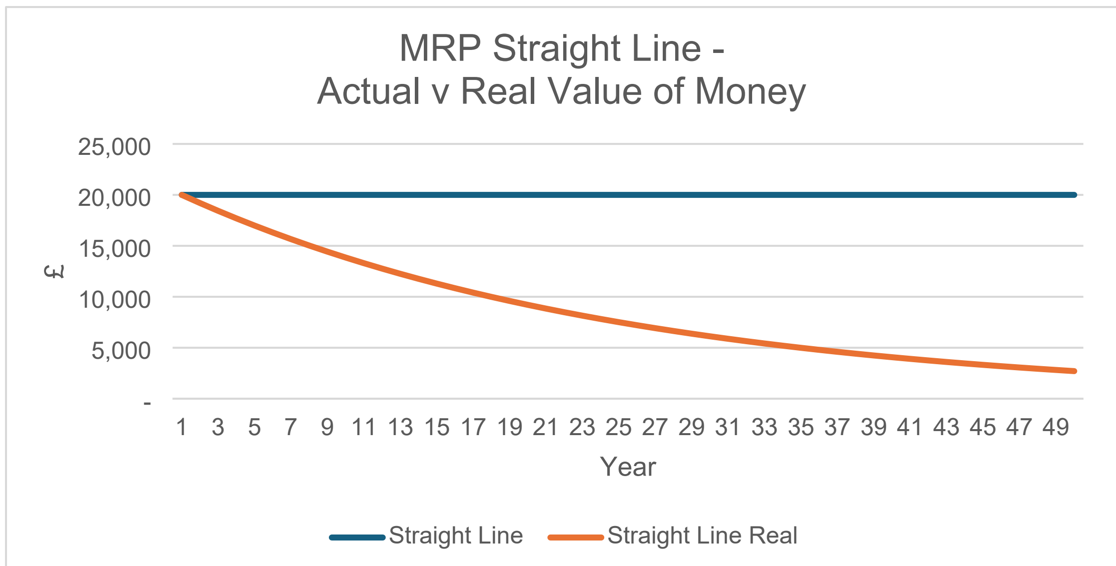
1.9. Concluding the CFR position following the disaggregation process gives an opportunity to look at consolidating the MRP.

1.10. Under the statutory guidance, where a local authority changes the method(s) that it uses to calculate MRP, it should explain in its Statement, why the change will better allow it to make prudent provision.

1.11. The change to annuity based MRP improves the Council's ability to make prudent provision as it helps to distribute MRP more fairly when factoring that the value of money decreases with time due to its earning potential. The current inherited position includes a proportion of MRP calculated using a straight-line approach, this means that the real value that future revenue budgets are expected to provide for MRP can be significantly less than the current budget, whilst the assets are delivering the same benefits. The divergence in the real vs nominal value of money therefore creates a divergence in the suitability of a straight-line vs annuity-based approach to MRP, particularly over the medium to long-term. With interest rates and inflation presently much higher than when the council began to generate a CFR (incurring capital spend without capital receipts available to finance the spend), this factor is becoming more prevalent and therefore should be considered in making prudent provision.

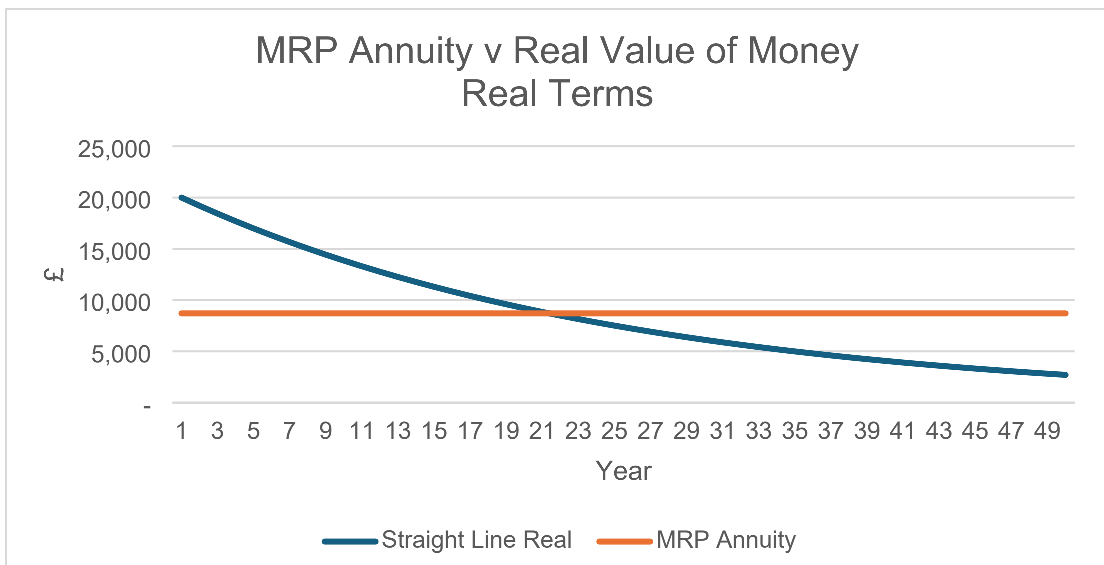
1.12. Much of the capital the council has outlaid which has increased its CFR has been in the purchase and enhancement of long-term assets that will have an expected lifetime of 50 years or more for the area that are set to provide long-term economic benefits. Factoring the time value of money into the MRP calculation helps to distribute the cost more fairly to the revenue budget over the lifetimes of the underlying assets resulting from the investments. This ensures that the current revenue budget is not unfairly burdened with costs associated with assets delivering long-term strategic objectives of the council or where economic benefits are expected to be maintained or increase over the life of the assets, benefitting the future as well as the current taxpayer.

1.13. For example, if the council spends £1m on purchasing a building with a 50-year useful life, under the straight-line approach, the council will charge £20,000 annually in MRP. However, where interest rates are expected to remain around 4% on average over that period (as an illustration), the real value of the MRP decreases across the life of the asset, meaning that future revenue budgets pay proportionally less in MRP compared to the current budget. This is depicted in the figure below:



1.14. The time value of money means that an MRP charge of £20,000 in fifty years would be around £3,000 in today's terms. The annuity method seeks to combat this effect by ensuring an even spread of MRP with the time value of money factored in. Whilst the nominal value increases with time, the real value of the MRP will remain proportionate to the value of money at the time the charge is made, essentially making the MRP charge constant in real terms.

1.15. Below is a profile of MRP on an annuity basis for the same scenario, demonstrating that using the annuity method factoring the time value of money, results in a straight-line MRP charge in real terms:



1.16. By adopting an annuity based MRP approach for fixed asset and share capital expenditure service benefits, the council will:

- Factor in the time value of money into its MRP calculation;
- More fairly distribute MRP across the underlying lifetime of the assets invested in, and;
- Better allow a prudent MRP charge to revenue to be made.

1.17. The council recognises that the interest rates and inflation determine the time value of money and are likely to fluctuate over the lifetime of MRP for long-term assets. As such, the council will review the suitability of the annuity-based method annually to ensure it remains appropriate.

1.18. Estimated useful life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods set out in the guidance, these periods will generally be adopted by the Council. 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.

1.19. As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis that most reasonably reflects the anticipated period of benefit that arises from the expenditure. Whatever type of expenditure is involved, it will be grouped together in a manner that best reflects the nature of the main component of expenditure with substantially different useful economic lives.

1.20. 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.

- Leases and Private Finance Initiatives (PFI) – For assets acquired by leases or PFIs, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Operating Leases – 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 total charge to revenue remains unaffected by the new standard.

- Loans to Third Parties – For capital expenditure loans to third parties, the Council will make nil MRP unless

a) the loan is an investment for commercial purposes and no repayment was received in year or

b) an expected credit loss was recognised or increased in-year 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 on loans that are investments for commercial purposes, 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. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the Council's view is consistent with the current regulations.

- Revenue Expenditure Funded from Capital Under Statute (REFCUS) - Estimated life periods will be determined in line with accounting guidance and regulations. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, the Council will generally adopt these periods. 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.

- No MRP will be charged in respect of assets held within the Housing Revenue Account.

1.21. Based on the Council's latest estimate of its capital financing requirement (CFR) on 31st March 2024, the budget for MRP has been set as follows:

	March 2024 Draft CFR	2025/26 Draft MRP / Loan Repayment
General Fund	485,029	(4,695)
PFI	33,530	(2,106)
Leases	1,658	(668)
Long Term Debtors	5,387	0
Total General Fund	**525,603**	**(7,469)**
HRA	117,716	(3,000)
Total	**643,319**	**(10,469)**