APPENDIX E

Minimum Revenue Provision

1 Introduction

1.1 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) requires local authorities each year to calculate and set aside some of their general fund revenue as provision for debt repayment. This is known as the Minimum Revenue Provision (MRP):

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

1.2 The definition of "prudent provision" is not defined and is a matter for the authority to determine. However, revised guidance has been issued by MHCLG, to which authorities, by virtue of Section 21 of the Local Government Act 2003 (as amended), are obliged to "have regard".

2 Guidance

2.1 Paragraph 20 of the guidance states:

"The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover the gap between the CFR and grant income/capital receipts. In doing so, local authorities can align the period over which they charge MRP to one that is commensurate with the period over which the capital expenditure provides benefit."

2.2 This general aim does not stipulate a minimum amount of provision to be made in any year, provided that the broad aims above are met. The Guidance exemplifies four different annual repayment profiles and permits authorities to consider their own repayment profiles.

2.3 The profile will dictate the length and shape of the repayment – it will not change the amount repayable, which remains the same under each scenario.

3 Recommendations

3.1 It is recommended that the MRP Policy outlined in section 4 is adopted, materially unchanged from that agreed on 25 February 2021.

4 MRP Policy

Supported Borrowing

4.1 The authority will calculate MRP on historic debt based on the Capital Financing Requirement (CFR) as at 31 March 2015. This incorporates pre-2008 borrowing and Supported Capital Expenditure since 2008.

4.2 The authority will provide for 2% of the CFR as at 31 March 2015, fixed at the same cash value so that the whole debt is provided for after 50 years.

Prudential Borrowing

4.3 For borrowing incurred on schemes described by the Government as Prudential Borrowing, MRP will be calculated over the estimated remaining useful life applicable to the expenditure (usually the useful life of the asset it is financing) using the annuity repayment method (in accordance with Option 3 of the CLG Guidance on MRP) – like many domestic mortgages.

4.4 This means that MRP will be calculated on an annuity basis over the estimated life of the asset and prevailing discount rates.

4.5 Estimated life periods are established as 40 years for land and buildings and up to 7 years for equipment and vehicles, with discount rates set at the PWLB annuity rate on the date the asset becomes operational.

4.6 In accordance with the provisions in the guidance, MRP will be first charged in the financial year following the one in which the entire asset to which the debt relates, becomes fully operational or completion of any enhancement works.

Finance Leases, Service Concessions and Loans

4.7 For right of use assets secured via leases, PFI's and service concession contracts MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

4.8 Where loans are provided to third parties for capital purposes the annual MRP charge will be equal to the principal loan element calculated in accordance with the methodology set out in CIPFA's guidance on the Code of practice on local authority accounting in the United Kingdom (2019/20).

Statutory Capitalisations

4.8 For expenditure which does not create a fixed asset but is statutorily capitalised, and subject to estimated life periods referred to in the guidance, these estimated periods will generally be adopted by the authority.

Other

4.8 The authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate. Such determinations will be at the discretion of the Chief Finance Officer.

4.9 The MRP policy and practices are aligned with the proposed changes to the Capital Framework set out in the consultation issued by the Department for Levelling Up and Communities issued on 30th November 2021 [Link]. These amendments seek to address the following behaviours in some Local Authorities.

i) Local authorities using sales from assets (capital receipts) in place of a charge to revenue. Authorities may use capital receipts to reduce overall debt and thereby reduce MRP through the calculation. Capital receipts may not, however, be used in lieu of a prudent charge to revenue.

ii) Local authorities are not charging MRP on debt related to certain assets. The evidence is that while some authorities are making MRP for commercial investments funded by borrowing, some are still not paying MRP in relation to borrowing associated with investment assets or capital loans. The statutory guidance is clear that financing for investment assets and capital loans requires provision to be made.