Appendix 2A

Statement of Policy on making Minimum Revenue Provision 2025/26

Where the Council finances capital expenditure by debt, it must put 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 Authority 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 April 2024.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the authority to approve an annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP, but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the guidance as well as locally determined prudent methods.

MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

Minimum Revenue Provision for the years 2024/25 and 2025/26 - Unsupported borrowing: The Council's policy for MRP is to calculate the amount to be charged to the Income and Expenditure Account by applying the following methods:

Prudential Code debt incurred prior to 1 April 2008 - the Council will calculate MRP by applying 4% to the apportionment of the value attributed to each financial year's opening Capital Financing Requirement (CFR) in relation to such capital expenditure.

Prudential Code debt incurred in the year 2008/09 - the Council will calculate the amounts for MRP by applying 2% to the apportionment of the value attributed to each financial year's opening CFR in relation to such capital expenditure where the item purchased/built is expected to have a life of 50 years or more.

Prudential Code debt incurred in the year 2009/10 and onwards in relation to income generating property acquisitions - the Council will calculate the amounts for MRP by applying an annuity formula incorporating a long-term borrowing rate commensurate in duration to the estimated life of the item purchased/built to the apportionment of the value attributed to each financial year's opening CFR in relation to such income generating capital expenditure where the item purchased/built is expected to have a life of up to 50 years or more.

Prudential Code debt incurred in the year 2009/10 and onwards in relation to other non-income generating capital expenditure - the Council will calculate the amounts for MRP by applying a linear percentage akin to the estimated life duration of the item purchased/contributed/built to the apportionment of the value attributed to each financial year's opening CFR in relation to such capital expenditure where the item purchased/contributed/built is expected to have a life of up to 50 years or more.

Prudential Code debt incurred in relation to Housing Development generating capital expenditure - The Council will calculate the amounts for MRP by matching debt repayments to the annual income generated in the business plan of each individual scheme, whilst ensuring MRP payments write the related element of CFR to nil within 50 years of the asset coming into operation. MRP will be adjusted to ensure the project does not suffer an overall revenue financial loss in the early years of operation. In any case, the Council will not rely on the future sale of the asset after it has been brought into use to repay the borrowing in lieu of MRP. Should the asset be planned for disposal prior to use by the Council, the capital receipts arising from the sale of the asset will be applied to reduce the CFR instead of making MRP. This is deemed to be a prudent approach as it ensures the future benefits of investment in housing are not impacted by a lack of initial liquidity. This lack of liquidity may arise as a result of high initial borrowing costs outweighing early income generation.

For capital expenditure loans to third parties – For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until 2026/27 or later.

Capital Receipts

Proceeds from the sale of capital assets are classed as capital receipts, and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.

Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.

Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.

Any other capital receipts applied to repay debt will be used to reduce MRP in instalments starting in the year after receipt is applied.

All the above elements are subject to further regard of regulatory amendments where applicable. This policy presents a prudent and robust approach to the Council's duty to calculate and make charges for MRP.