

TREASURY MANAGEMENT STRATEGY 2021/22

ANNEX F – Minimum Revenue Provision (MRP) Strategy 2021/22 - 2023/24

1. Minimum Revenue Provision (MRP) Strategy

- 1.1 Local authorities are required to set aside 'prudent' revenue provision for debt repayment (MRP) where they have used borrowing or credit arrangements to finance capital expenditure. Statutory Guidance covering Minimum Revenue Provision (MRP) was revised and updated in February 2018 by the Ministry of Housing Communities and Local Government (MHCLG) and applies to accounting periods on or after 1st April 2019. The guidance sets out various options and boundaries for calculating prudent provision which are set out in paragraph 1.5 below.
- 1.2 Local authorities can vary the MRP methodologies they use during the year and if they do so must present a revised MRP statement to the next full Council. Where a change would impact on the value for money assessment of non-financial investments the updated statement should summarise this impact.
- 1.3 Under the new guidance, where a change takes place the calculation of MRP under the new method should be based on the residual Capital Financing Requirement (CFR) at the point the change in method is made (i.e. it should not be applied retrospectively). Changing the method used to calculate MRP can never give rise to an overpayment in respect of previous years. Further, it should not result in a local authority making a reduced charge or charge of £nil for the accounting period in which the charge is made, or in a subsequent period, on the grounds that it needs to recover overpayments of MRP relating to previous years.
- 1.4 Whilst 'prudent provision' is not specifically defined, the guidance suggests that debt ought to be repaid over a period that is either commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant, it is reasonably commensurate with the period implicit in the determination of the grant.
- 1.5 There are four options set out in the statutory guidance for determining the MRP:

Option 1 - Regulatory Method
Option 2 - The Capital Financing Requirement (CFR) Method
Option 3 - Asset Life Method (the MRP is determined by reference to the life of the asset either by equal instalments of principal or the annuity method)
Option 4 - Depreciation Method (MRP is equal to the provision required under depreciation accounting).
- 1.6 Options 1 and 2 may only be used in relation to capital expenditure incurred before 1st April 2008, which form part of an authority's supported capital expenditure. For expenditure incurred on or after 1st April 2008, which does not form part of the authority's supported capital expenditure, prudent approaches include options 3 and 4.
- 1.7 Subject to the approval of the amendments recommended in the review of the Council's MRP Policy by Link Asset Services proposed to the Executive on 8th February 2021, the suggested changes have been incorporated in the Policy Statement below.

1.8 Minimum Revenue Provision (MRP) Policy Statement for 2021/22 is as follows:

- (i) In 2016/17 under the previous Statutory Guidance on MRP the Council changed its policy on all supported capital expenditure incurred prior to 1st April 2008 and for future supported capital expenditure, the MRP is based on the 2% straight line method, before making an adjustment for £24.1m, which is the difference between debt calculated under the prudential code (as at 1st April 2004) and debt calculated under the previous 'statutory' capital controls regime which commenced on 1st April 1990. This method is considered to be better than the previous method because it ensures that all the debt incurred prior to 1st April 2008 is repaid over a finite number of years. The method will continue to be used for 2021/22 and for future years.
- (ii) For capital expenditure incurred after 1st April 2008 and financed by unsupported borrowing, the default method for calculation of MRP will be based on option 3, the Asset Life Method. This method is considered both appropriate and prudent and will continue to be used in 2021/22.
- (iii) In exceptional circumstances MRP for capital expenditure incurred after 1st April 2008 and which is funded by unsupported borrowing can be calculated using the Annuity Method (a variation allowed under option 3 of the 2018 Regulations). However, this method is only suitable for particular types of capital expenditure projects where the benefits are expected to increase in later years or where the income stream generated by the new project mirrors the Annuity profile. It may be particularly attractive in connection with projects promoting regeneration or administrative efficiencies where revenues will increase over time. This method may only be used if it receives approval by the Treasury Management Panel.
- (iv) In the case of finance leases, where a right-of-use asset is on the balance sheet, and on balance sheet PFI contracts, the MRP requirement is by a charge equal the element of the rent/charge that goes to write down the balance sheet liability.
- (v) Where on or after 1st April 2008 expenditure is incurred which is:
 - Financed by borrowing or credit arrangements; and
 - Treated as capital expenditure by virtue of either a direction under section 16(2)(b) of the 2003 Act or Regulation 25(1) of the 2003 Regulations,

MRP will be calculated in accordance with Option 3, the asset life method that is exemplified in the MRP guidance whereby the liability will be charged over a period that is reasonably commensurate with that over which the new capital expenditure is estimated to provide a benefit to the authority.

- (vi) In accordance with the Statutory Guidance no MRP will be charged on borrowing or credit arrangements used to finance capital expenditure on housing assets, to which Section 74(1) of the Local Government Housing Act 1989 applies (HRA related housing debt).

Local Exceptions to the Guidance:

- (vii) The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the MHCLG guidance are not appropriate to local circumstances. These include:
- (viii) MRP will not be charged on loans made to wholly owned subsidiaries or other third parties where such loans are treated as capital expenditure in cases where there are satisfactory and supportable repayment obligations attached to those loans such as those loans granted by the Council's Business Loans Fund. Unlike other types of capital receipt, the capital receipts that will arise from these repayments will be set aside generally or specifically to reduce the outstanding amount of capital debt liability in respect of these loans. Any loans given are subject to a substantial due diligence process and the anticipated receipts will be kept under review on an annual basis in order to ensure that the deferment of MRP remains prudent.
- (ix) Any capital receipts which the Council determines in future should be set aside in order to reduce the outstanding amount of capital debt liability may, if desired, be taken to represent a debt liability reduction that has been made in lieu of a corresponding amount of prudent provision that otherwise have been made in a particular year. Any such setting aside of capital receipts however, apply those capital receipts which represents the repayment of loan principal amounts in respect of loans made in earlier financial years which have been treated as capital expenditure, but not subject to an MRP charge.
- (x) Following the MRP review carried out by Link Group in 2020, savings were identified in respect of financial years 2004/05 – 2018/19, totalling £23.808m, (in respect of an increase of £34.743m to Adjustment A, and earlier year revenue contributions to capital of £13.054m, adjusted for alternate MRP liability). The policy changes reflected in this review is represented by the council as a new local option for the ongoing determination of an amount of MRP which is considered each year to be prudent and thus the Council will determine for 2020/21 and any subsequent financial year the extent to which to reduce the amount of MRP liability that would have arisen, but for these savings. Additionally, the Council will continue to apply the higher amount of Adjustment A indicated above.
- (xi) The above policy will ensure that the Council satisfies the requirement to set aside a prudent level of MRP.