Appendix 17

Annual Minimum Revenue Provision Policy Statement 2024-25

Background

Local authorities are required each year to set aside some of their revenue as provision for debt repayment. Previous regulations prescribed how much provision to make using a formula which was linked to prudential indicators. The system was simplified under the 2008 Regulations and authorities are now only required to make “prudent provision”, based on guidance issued by the former Department for Communities and Local Government.

The broad aim of prudent provision is to ensure debt is repaid over a period that is either reasonably equal with that over which the capital expenditure provides benefit; or, in the case of borrowing supported by Government Revenue Support Grant reasonably equal with the period implicit in the determination of that grant.

The Government’s guidance offers four options for the calculation of the provision:

- Option One - Regulatory method: Minimum Revenue Provision (MRP) charges are based on the same formula used in the previous regulations. This method should only be adopted for capital expenditure incurred before 1 April 2008. However, it may also be applied for any new capital expenditure that is deemed to be ‘supported’ as part of the Revenue Support Grant (RSG) settlement on the grounds that the MRP charge would be offset by the support included with the RSG.
- Option Two – Capital Financing Requirement (CFR) Method: A simplified version of option one which removes an adjustment in the original formula, known as Adjustment A, which ensured consistency with previous Capital Regulations. For most authorities this method would probably result in a higher level of provision than option one. This method should only be adopted for capital expenditure incurred before 1 April 2008.
- Option Three – Asset Life Method: The MRP charge is aligned to the estimated life of the asset for which the borrowing is undertaken. This method is suggested for new borrowing for which no Government support is being given (i.e. unsupported borrowing), but can also be used for supported borrowing as well.
- Option Four – Depreciation Method: MRP is matched to the provision for depreciation. The result should be similar to option three.

The guidance suggests that from 2009-10 onwards MRP charges relating to non-government supported borrowing must be calculated using either method three or four.

The legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

Confirmation of Policy

A continuation of the existing practise is proposed for 2024-25 with a modification to the existing third-party loans policy and the addition of a policy for equity investments.

The Council is therefore recommended to approve the following arrangements which are unchanged from the previous year:

- for historic capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, MRP will be charged on a straight-line basis over 50 years, as adopted in 2019-20;
- for all capital expenditure incurred after 1 April 2008 financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance;
- with regard to the Option 3 element, a fixed average asset life will be assumed and applied to the global in year unsupported borrowing / spend, rather than breaking this calculation down to spend on individual assets and their respective lives. The assumed life will be based on the historic weighted average life of all assets included in the Option 3 calculation for 2009-10 to 2014-15;
- in order to allow increased flexibility to cope with future austerity, whenever resources are available and allow; additional voluntary set aside may also be made. Conversely, any advance provision from previous years may if needed be utilised to reduce the current year's MRP requirement (i.e. that which would otherwise be set aside). The level of each year's voluntary set aside, or reversal, will be delegated to the Section 151 Officer (or the Deputy Section 151 Officer), based on what is considered prudent and affordable for both existing resources and future forecasts; and,
- there is no requirement to provide minimum revenue provision in relation to the Housing Revenue Account.

Additionally, the Council is recommended to approve the following arrangements which are modified from the previous year:

- for equity investments in the Council's subsidiary companies the MRP policy will be on an asset life basis over a period of 20 years; and,
- for capital expenditure in respect of Long-Term Capital Debtors, where principal is repaid over the term of the loan (such as the loans to Northumbria Healthcare NHS Foundation Trust), the MRP is as follows:
    - for commercial loans – where loan repayments are received in year then the loan repayments will be used in lieu of MRP and applied to write down the CFR. In years where no loan repayment is received, even if a loan repayment is anticipated, then MRP will be provided over a prudent period;
    - for service loans – where loan repayments are received in year then the loan repayments will be used in lieu of MRP and applied to write down the CFR. In years where no loan repayment is received, then MRP will not be provided until

the loan repayment is received, at which point the repayment will be applied to write down the CFR. The Council can however choose to provide MRP if it considers this to be a more prudent approach; and

- for commercial and service loans – where an actual or expected credit loss has been recognised then the MRP amount in the year will be equal to the amount of the credit loss. This amount can be reduced by any historic MRP made with respect to that loan.