Annex 5

Minimum Revenue Provision (MRP) Policy – 2026/27

Overview

The Council is required to annually set aside revenue funds for the prudential repayment of outstanding capital borrowing in accordance with provisions set out in CIPFA's Prudential Code and the Statutory Guidance on Minimum Revenue Provision (MRP) issued by the Government. The setting aside of revenue funds for the future repayment of outstanding borrowing is referred to as a Minimum Revenue Provision (MRP) charge. The Council is also allowed to make additional voluntary payments if required.

As part of the regulatory framework, Council is required to approve its Minimum Revenue Provision (MRP) Policy annually.

The MRP Policy, in accordance with proper practice, considers outstanding capital borrowing to be the Council's Capital Financing Requirement (CFR) rather than external loans taken out to finance capital expenditure. Accordingly, any reference in this Policy to the repayment of capital borrowing relates to the setting aside of resources to reflect movements within the Council's CFR rather than to the physical repayment of external debt.

In April 2024, the Government published a new Statutory Instrument with amended Statutory Guidance on MRP, which applies to accounting periods from 2025/26 onwards. The main intent of the changes was to make explicit that that capital receipts may not be used in place of the revenue charge and that excluding debt associated with certain types of assets is not allowed.

MRP Methodology

Provision for the repayment of outstanding capital borrowing will generally be made in accordance with guidance and regulations to reflect the estimated life over which the capital assets acquired are anticipated to provide useful economic benefit. However, this may be adjusted on an individual asset by asset basis depending on the specific circumstances. The Council's statutory Section 151 officer will, as necessary determine individual asset lives for MRP purposes (in accordance with the overriding requirement to allow for the prudent provision for repayment of debt).

Of the four standardised methods set out as examples in the statutory regulations for the calculation of MRP, the Council has adopted the "Asset Life Method - Annuity" as the one which best allows for the prudent repayment of capital borrowing over the life of individual capital assets. MRP is the principal element for the repayment of borrowing. The annuity is the repayment profile determined by the useful life of the asset and an appropriate interest rate.
For capital expenditure incurred before 1st April 2008, MRP will be determined as the principal repayment on a 50 year annuity with an annual interest rate equal to 2% which will fully finance this element of the CFR within 50 years, incorporating an "Adjustment A" of £38.8m.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

Assets under construction, including regeneration sites undergoing development, which have yet to fully deliver their expected benefits will not be subject to MRP charges to the Council's Revenue Budget until such time as they become operational for a full accounting year. Accordingly, on becoming operational, the charge for MRP will not commence until the following financial year.

Any prior error or change in assumption as to expected future asset life may be adjusted for in the current (or future) financial year, subject to any constraints on such adjustment as set out in the Prudential Code or Statutory Regulations.

Whilst the above sets out the Council's general MRP principles and Policy, a number of specific instances and circumstances require separate treatment with regard to MRP in order to ensure the charge to revenue is both prudent for the repayment of debt and accurately reflects the economic benefits being realised. These are set out below.

Specific MRP Cases

For assets acquired by finance leases or the Private Finance Initiative [and for the transferred debt from Avon County Council], MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Where former operating leases have been brought onto the balance sheet due to the adoption of the International Financing Reporting Standard (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.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, 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, 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 MRP consultation and in the Council's view is consistent with the current regulations.

Subject to affordability and the sustainability of the Budget and Medium Term Financial Strategy (MTFS), the Council's Section 151 Officer will continue to explore opportunities for the earlier reduction of outstanding debt for the General Fund, and where appropriate and subject to available resources, reserve the power to make supplementary MRP contributions over and above the minimum previously determined as prudent, where longer term financial benefits may be derived.

Capital Receipts

Capital receipts may ordinarily be applied to fund capital expenditure or be set aside for the repayment of debt. An exemption currently applies until 31st March 2030 (an extension from 31st March 2025 was announced as part of the Local Government Finance Policy Statement on 28th November 2024) which allows capital receipts to be used to fund revenue expenditure which generates future and ongoing savings and service transformation – referred to as the Flexible Use of Capital Receipts.

The Council's Section 151 Officer will apply General Fund capital receipts so as to optimise the benefit to the Revenue Account whilst being mindful of the long term need to prudently repay capital debt.

To the above end, all capital receipts (unless statutorily or contractually ring-fenced to specific purposes) will be applied to their most beneficial purpose. Where capital receipts are applied to repay debt, such repayments will be applied against the remaining borrowing identified on an asset-by-asset basis and the MRP liability adjusted accordingly.

MRP Overpayments

Under the MRP guidance, any charges made in excess of the statutory MRP are known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this Policy must disclose the cumulative overpayment made each year. There is currently no expectation that any VRP contributions will be made in the period 2025/26-2028/29.