

Public Document Pack



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE CABINET

WEDNESDAY 12TH FEBRUARY 2025, AT 6.00 P.M.

PARKSIDE SUITE - PARKSIDE

SUPPLEMENTARY PAPERS 1

8. **Medium Term Financial Plan - Tranche 2 Budget including Fees and Charges (following consultation) (Pages 3 - 6)**

This Supplementary Papers pack contains Appendix H to this report.

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5th February 2025

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Appendix H – MRP Statement

- 3.1 Where the Authority 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.
- 3.2 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.
- 3.3 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.
- 3.4 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.
- 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 of 4%, 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.
 - For assets acquired by leases, 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 *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 on loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, 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. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

- There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial year.
- Where the council makes a capital contribution or loan to another entity or where responsibility for a council asset with borrowing attached is transferred to a third party, then no MRP will be set aside if:
 - the payments are appropriately covered by assets
 - there are detailed plans demonstrating that all the expenditure will be recovered in an appropriately short time frame
- To ensure that this remains a prudent approach the Council will review the expenditure and income regularly to determine if the income or asset values have decreased to the point that MRP needs to be provided for. Should evidence emerge which suggests the expenditure will no longer be recovered, MRP will be provided for.
- Where the council uses internal borrowing and receipts of rental income are greater than the MRP calculated then as there are sufficient revenues to repay the capital cost, no MRP will be set aside.

3.5 Capital loans

- For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.
- 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.

3.6 Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

3.7 Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2025, the budget for MRP has been set as follows:

	31.03.2025 Estimated CFR	2025/26 Estimated MRP
	£m	£m
Capital expenditure before 01.04.2008		
Supported capital expenditure after 31.03.2008		
Unsupported capital expenditure after 31.03.2008	42.7	1.31
Leases and Private Finance Initiative		
Transferred debt		
Loans to other bodies repaid in instalments		
Voluntary overpayment (or use of prior year overpayments)		
Total General Fund	42.7	1.31

3.8 **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 10 equal instalments starting in the year after receipt is applied.