Appendix B

Minimum Revenue Provision (MRP) Policy Statement 2024/25 and 2025/26

Introduction

1. Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.

2. MRP is sometimes referred to as the mechanism for setting aside monies to repay external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the Council's own cash resources and no new external borrowing or other credit arrangement has been entered into.

3. Regulation 28 of the 2003 Regulations requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. This statement is designed to meet that requirement.

4. In setting a prudent level of MRP local authorities must "have regard" to guidance issued from time to time by the Secretary of State for Housing, Communities and Local Government. The latest version of this guidance (version four) was issued by Ministry of Housing, Communities and Local Government (MHCLG) in February 2018.

5. The statutory guidance Capital Finance: guidance on minimum revenue provision (5th edition) was published 10 April 2024 and comes into effect 1 April 2025. Our MRP Policy for 2025/26 will comply with the current guidance, applying option 3; to all legacy unfinanced capital spend, using an annuity method for commercial and investment assets and using a straight-line basis for all other general fund assets. This is the method being taken forward into future years.

6. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

7. The Guidance sets out four "possible" options for calculating MRP, as set out below,

Option	Calculation method	Applies to
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

8. Two main variants of Option 3 are set out in the Guidance (a) the equal instalment method and (b) the annuity method. The annuity method weights the MRP charge towards the later part of the asset's expected useful life and is increasingly becoming the most common MRP option for local authorities.

9. The Guidance also includes specific recommendations for setting MRP in respect of finance lease, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies.

10. Other approaches are not ruled out however they must meet the statutory duty to make prudent MRP provision each financial year.

MRP Charge Prior to Somerset Council

11. Prior to April 2023 all five legacy authorities had different MRP policies and practices. When the MRP policy was set for the new Council as part of the budget setting process for 2023/24, the MRP Policy Statement set out that past charges would not be re-visited but that a consistent approach would be developed for the new Council.

12. The MRP Policy approved in February 2024 for 2023/24 sited a prudent approach for the Policy being approved but stated further work was needed during 2024/25. In line with this during 2024/25, the source data for each of the legacy authorities has been reviewed and combined into one register which has been used to form our calculations. Somerset Council inherited varying qualities of data from the legacy authorities, which included:

    - Capital expenditure not shown on an asset-by-asset basis necessary to support the asset life method which they reported they were following;

    - Asset lives used for the MRP calculations at some authorities appeared to default to 50 years.

    - The need to apportion the county's CFR pro rata to the net book value of the assets held by the county, in order to estimate a split of the CFR by asset type and then apply asset lives more appropriate to the relevant asset class.

13. In view of this the MRP Policy Statement for 2024/25 and onwards applies a prudent provision based on asset life for unfinanced capital expenditure brought forward into the new Council at 1 April 2023 and for any additional unfinanced capital expenditure in future years.

Minimum Revenue Provision (MRP) policy statement

14. Having regard to current Guidance on MRP issued by MHCLG and the "options" outlined in that Guidance, the Council is recommended to approve the following MRP Statement to take effect from 1 April 2025, on the basis that this represents "a prudent provision" in line with Regulation 28.

MRP stream	Policy	Explanation
All operational capital expenditure incurred since 2007/08	MRP will be calculated on a straight-line using the expected useful asset lives of the assets (Option 3 – asset life), subject to a maximum useful asset life of 50 years.	This complies with the Option 3(a) of the MRP Guidance and the requirement for a recommended maximum asset life of 50 years.
All capital expenditure on commercial assets incurred since 2007/08	MRP will be calculated on an annuity basis using the expected useful asset lives of the assets (Option 3 – asset life), subject to a maximum useful asset life of 50 years and discounted using the PWLB new loan annuity rate relevant to that financial year.	The use of the annuity method complies with Option 3(b) of the MRP Guidance.
Expenditure capitalised by virtue of a capitalisation direction under section 16(2)(b) of the Local Government Act 2003	MRP on any expenditure capitalised by way of a Direction will be charged over 20 years using the asset-life method using an annuity approach.	The 20 year life is the period specified in para 47 of the MRP Guidance. The use of the annuity method complies with Option 3(b) of the MRP Guidance.

MRP stream	Policy	Explanation
Loans to third parties	MRP will be charged on a straight-line basis equal to the useful life of the assets for in relation to which the third-party expenditure is incurred	The straight-line approach complies with Option 3(a) of the MRP Guidance under Option 3: Asset Life Method
Expenditure on the acquisition of share capital	MRP will be charged on a straight-line over 20 years	The straight-line approach complies with Option 3 of the MRP Guidance and the 20 year life is that set out in para 80 of the MRP Guidance.
MRP for service concession contracts	The amount of the MRP charge will be equal to the amount by which the balance sheet liability is written by the unitary charge (i.e. the principal element of the unitary charge)	This complies with para 65 of the MRP Guidance
Asset lives	Asset lives used for MRP calculations will be determined by the Council's appointed RICS-registered valuers, and will be consistent with the depreciation policies set out in the Council's annual Statement of Accounts, and will be kept under regular review. If no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life will be taken to be a maximum of 50 years	This complies with para 51 of the MRP Guidance.

MRP stream	Policy	Explanation
MRP commencement	MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory Guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational.	This approach complies with para’s 45 and 64 of the MRP Guidance
Use of capital receipts to reduce indebtedness	Capital receipts may be applied to reduce the CFR. This means that subsequent year’s MRP charges will reduce by the amount of receipts applied. The MRP reduction will be on a straight line basis over 20 years, [unless the capital receipt relates to identifiable MRP charges, in which case the Section 151 officer may determine the annual MRP reduction consistent with those MRP charges.]	This approach complies with para’s 69 to 70 of the MRP Guidance

15. On the basis of the above MRP Policy, the estimated MRP for the forthcoming financial year of 2025/26 would be £26.012m (£25.613m in 2024/25), this is equivalent to 2.36% of the closing CFR at 31 March 2025 and comprises:

MRP Element	£m 2024/25	£m 2025/26
Legacy MRP	22.801	23.962
PFI - funded from unitary charge	1.437	1.575
Unsupported capital expenditure in prior year	1.375	0.476
TOTAL MRP	**25.613**	**26.012**

16. In setting the 2025/26 MRP policy based on the MRP Policy above, this will comply with the Council’s duty to set a prudent level of MRP.