2024/25 Wokingham Borough Council MRP Policy

The Council is required to pay off an element of the accumulated general fund capital spend each year (the Capital Financing Requirement (CFR) through a revenue charge (the minimum revenue provision - MRP), and it is also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. Guidance was issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is ‘prudent’. In calculating a prudent provision, local authorities are required to have regard to this guidance.

The decision on the level of MRP lies with the Council. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008, the MRP policy will be:

- an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all borrowing (including PFI and finance leases) the MRP policy will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over approximately the asset’s life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made. The HRA may make a VRP (Voluntary Revenue Provision) to debt repayment which will be agreed through the HRA budget setting process.

Repayments included in annual PFI or finance leases are applied as MRP.

Under the guidance, when borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. Therefore, it may postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. ‘Operational’ here means when an asset transfers from Assets under Construction to an Assets in Use category under normal accounting rules.

Wokingham continues to ensure it is fully consistent with the statutory duty to make prudent revenue provision. It also follows the statutory guidance, details of the MRP arrangements are disclosed below.

Expenditure type	WBC MRP charging policy
Freehold land	maximum 50 years using asset life as a guide
Bridges	maximum 50 years using asset life as a guide
Housing, Local Economy and Regeneration a) assets that can be disposed of for appreciation	maximum 50 years using asset life as a guide
Housing, Local Economy and Regeneration b) all other assets	range of 5 to 50 years (depending on life of asset type)
Loan Capital in WBC holdings	25 years or the period of the loan if longer. MRP will be reduced by an amount up to the amount of the capital receipts (loan repayments) received in respect of that loan during that financial year Additional MRP will be required if the expected credit loss of the loans exceed the regular MRP amount.
Forward Funding Schemes (Developer funded) a) S106 Funded b) Community Infrastructure Levy (CIL Funded)	a) maximum 50 years using asset life as a guide. Where S106 receipts are received and applied to pay off the CFR in year, MRP will reduce from the year after applying S106 receipts. In the event, S106 receipts are applied and historic MRP has been over provided, this over provision will be considered when providing future MRP repayments b) maximum 50 years using asset life as a guide. Where CIL receipts are received and applied to pay off the CFR in year, MRP will reduce from the year after applying CIL receipts.

Based on the Council' latest estimates of its Capital financing of its CFR on 31st March 2024 the budget for MRP and voluntary overpayments (VRP) has been set as follows:

Estimated MRP/VRP	2024/25 £m	2025/26 £m	2026/27 £m
MRP (minimum repayment provision)	£9.5m	£12.9m	£15.8m
PFI principal charge	£0.4m	£0.4m	£0.4m
HRA VRP	£1.6m	£2.1m	£2.1m
Contribution from invest to save schemes	(£1.4m)	(£3.2m)	(£5.7m)
Contribution from housing, economy & regeneration	(£4.6m)	(£5.7m)	(£5.8m)

Impact of IFRS 16 Changes

The MRP Policy above covers the treatment for finance leases. The accounting changes from IFRS 16 – Leases, which apply from 1st April 2024 will not change how the current MRP policy accounts for lease payments. The change will be for material operating leases being restated as finance leases which will affect the CFR balance and the estimated MRP payments. The MRP requirement would be regarded as met by a charge equal to the element of the rent / charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.

MRP Consultation

On 30th November 2021 a consultation was launched (open until 8th February 2022) in respect of potential changes to the current MRP arrangements. The consultation responses highlighted concerns raised by a number of authorities that the changes, as revised, could have unintended consequences that could adversely affect the delivery of priorities such as housing where councils were providing capital loans to finance delivery. In response to sector concerns, the proposals were amended to offer more flexibility regarding capital loans, balancing the need for MRP with the risk of non-repayment. The consultation on these changes ran from June to July 2022. The proposed changes to the Regulations remain substantively the same as previously consulted on in the June-July 2022 consultation, with some minor changes to reflect responses

The government issued a further consultation on 21st December (open until 16th February 2024). In light of the latest guidance, The Council will amend its MRP policy to enhance the provision of debt repayment with the changes set out below.

Changes to 2024-2025 Policy

The following changes have been made for the 2024/25 MRP policies to further enhance the financial provision for the repayment of debt. These include;

- Housing, Local Economy and Regeneration - a) assets that can be disposed of for appreciation

2023/24 Policy	10% of maximum 15 years asset life
2024/25 Policy	maximum 50 years using asset life as a guide

- Loan Capital in WBC holdings

2023/24 Policy	no charge – loan secured by company asset
2024/25 Policy	25 years or the period of the loan if longer. MRP will be reduced by an amount up to the amount of the capital receipts (loan repayments) received in respect of that loan during that financial year Additional MRP will be required if the expected credit loss of the loans exceed the regular MRP amount.

- Forward Funding Schemes (Developer funded)
    - a) S106 Funded
    - b) Community Infrastructure Levy (CIL Funded)

2023/24 Policy	no charge – developer contributions are used to repay principle
2024/25 Policy	a) maximum 50 years using asset life as a guide. Where S106 receipts are received and applied to pay off the CFR in year, MRP will reduce from the year after applying S106 receipts. In the event, S106 receipts are applied and historic MRP has been over provided, this over provision will be considered when providing future MRP repayments b) maximum 50 years using asset life as a guide. Where CIL receipts are received and applied to pay off the CFR in year, MRP will reduce from the year after applying CIL receipts.