2018/19 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).

Department for Communities and Local Government (DCLG) regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. The decision lies with the Council although a prudent provision must be made. The Council is recommended to approve the following MRP Statement:

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

- MRP will be based on the CFR (option 2);

These options provide for 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 (although there are transitional arrangements in place).

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

Some draft guidance on minimum revenue provision issued by MHCLG indicates that their guidance is for freehold land should have a maximum useful life of 50 years, and for any other asset class to have a maximum useful life of 40 years. Wokingham will follow this principle, except in some instances, as disclosed below. Final guidance is expected to be issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to "have regard" to this guidance.

For some investment assets WBC believes it would be overly prudent to charge MRP in line with the draft guidance, as it would stop the Council making an investment which could otherwise strengthen its financial position, due to an artificial self-implemented restriction.

For assets which WBC or one of its subsidiary companies is investing in purely for the return on investment, we will echo the depreciation principles, and not provide MRP while the asset is held at a carrying value greater than or equal to its initial cost. If the carrying value reduces to be lower than its cost, then MRP will be applied

with a maximum useful economic life of 50 years for freehold land, and 40 years for other asset classes until the carrying value is greater than or equal to the initial cost less the accumulated MRP.

For investment properties which are held as such for financial reporting purposes, minimum revenue provision will not be charged while the asset is held at a carrying value greater than or equal to its initial cost. If the carrying value reduces to be lower than its cost, then MRP will be applied with a maximum useful economic life of 50 years for freehold land, and 40 years for other asset classes in the same fashion as the paragraph above

Similarly, for capital expenditure categories listed in paragraph 45, alternative prudent assumptions will be used in some circumstances.

Expenditure type	Guidance maximum 'C', (MRP repayment period)	WBC MRP charging policy
25(1)(a) Computer programs	Shorter of useful economic life (UEL) of hardware or length of software license	As per guidance
25(1)(b) Loans and grants towards capital expenditure by third parties	UEL of assets the third party spend on	As per guidance normally *But where LA owned company, and providing loan, only charge MRP if it is a depreciating asset.*
25(1)(c) Repayment of grants and loans for capital expenditure	25 years or period of loan if longer	As per guidance
25(1)(d) Acquisition of share or loan capital	20 years	N/A – Only charge MRP if it is a depreciating asset.
25(1)(e) Expenditure on works to assets not owned by the authority	UEL of asset	As per guidance
25(1)(ea) Expenditure on assets for use by others.	UEL of asset	As per guidance
25(1)(f) Large scale transfers of dwellings	25 years	As per guidance

Officers responded to the technical consultation on MRP and the proposed changes to the prudential code. The consultation closed on the 22nd December 2017

https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance