

2020/21 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.

Wokingham will follow the statutory guidance, 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For some investment assets WBC believes it would be overly prudent to charge MRP in line with the draft guidance, as it would stop the Council making an investment which could otherwise strengthen its financial position, due to an artificial self-implemented restriction.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 charge a 10% charge for MRP. The MRP will be applied with a maximum useful economic life of 50 years for freehold land, and 40 years for other asset classes.

Alternative prudent assumptions will be used in the following circumstances.

Expenditure type	Guidance maximum 'C', (MRP repayment period)	WBC MRP charging policy
Freehold land	maximum of 50 years	Maximum 60 years
bridges	maximum of 50 years	Maximum 60 years
Investment assets	maximum of 50 years	10% of maximum 60 years asset life
loan capital in WBC holdings	20 years	No charge - Loan covered by Asset
Forward funding Schemes	maximum of 50 years	No charge – Developer contribution are used to repay principle

Based on the Council latest estimates of its Capital financing of its CFR on 31st March 2020 the budget for MRP and voluntary overpayments (VRP) has been set as follows:

CFR	2019/20 Estimate £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000
Opening Capital expenditure funded by borrowing	335,175	421,565	498,610	616,828
Closing Capital expenditure funded by borrowing	420,112	497,157	615,375	736,350

Estimated MRP/VRP 2020/21	2019/20 Estimate £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000
Invest to save	(133)	(1,508)	(2,113)	(2,321)
Commercial Activities (excludes Town centre)	(426)	(648)	(870)	(1,093)
Town Centre Regeneration	(138)	(1,725)	(2,218)	(2,758)
Infrastructure	(3,555)	(3,555)	(3,555)	(3,555)
Developer Contributions Forward Funded*	(5,633)	(3,792)	(5,855)	(7,279)
Total	(9,885)	(11,229)	(14,612)	(17,006)

Note * this is on receipt of the developer contributions linked to the forward fund schemes

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 2020 will not change how the current MRP policy accounts for lease payments. The potential change will be for material operating leases being restated as finance leases which will affect the CFR balance and the estimated MRP payments. Any new leases undertaken from 1st April 2020 may also have an impact on the estimated balances above. The Council are currently reviewing all leases to ensure correct accounting treatment for 20/21.