



**South
Derbyshire
District Council**

MRP Statement 2024/25

February 2024

Annual Minimum Revenue Provision Statement 2024/25

Where the Council 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 Council 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 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

General Fund

- It is currently the Council's policy that for capital expenditure, MRP is determined as 4% of the capital financing requirement (CFR) in respect of that expenditure on a reducing basis.
- However, following a review of CFR (as outlined in the treasury management strategy) it is proposed that the method of applying MRP is changed. The four options made available to the Council are outlined below:

Option 1: Regulatory Method: MRP is charged at 4% of the Council's underlying need to borrow for capital purposes: the capital financing requirement (CFR)

Option 2: CFR Method: Annual MRP charge is set at 4% of the non-housing CFR at the end of the preceding financial year.

Option 3: Asset Life Method: MRP is spread over the useful life of the asset, either in equal instalments, or equal to the principal repayment on an annuity using an appropriate interest rate.

Option 4: Depreciation method: MRP is equal to the depreciation provision required in accordance with proper accounting practices to be charged to the comprehensive income and expenditure statement.

- As stated above, the Council currently calculates its MRP using the regulatory method (option 1), however it has been determined that the asset life method (option 3) is more appropriate. For the current CFR, the useful life has been determined as 50 years.

- This approach would be a more prudent approach to MRP than the current method as it will see the CFR fully financed within 50 years whereas the current method will not. Changes to MRP can be implemented in year so these amendments and benefits to the General Fund could be felt in the 2023/24 financial year so the Council may wish to consider making these changes immediately. This approach gives a robust basis and has been recognised as appropriate by the external auditors in a number of Council's in the past. It also allows for borrowing which is not directly linked to a particular asset. Treasury management procedures mean that the cheapest course of action to fund expenditure is to use the Council's uncommitted cash balances before borrowing externally, due to the returns on cash deposits being lower than borrowing rates. This means that we may be able to delay borrowing whilst we use our own cash, hence when we do decide to borrow this is not always directly attributable to a specific asset, it may in fact fund a number of assets or capital enhancements to existing assets. Capital expenditure funded by prudential borrowing in year will not be subject to a MRP charge until the following year or the year after the asset becomes operational if that is beyond the following year.
- Each of the options outlined in this report are recommended by CIPFA and therefore the Council's policy is in line with the guidance.

Reducing Balance (Current Method) Vs Annuity Method (Proposed Method)

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
MRP Reducing Balance 4%	274	263	253	243	233	224
MRP 50-year annuity at 4.50%	38	40	42	44	46	48
Reduction in MRP	236	223	211	199	187	176

- For future unfinanced capital expenditure, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity, 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.

HRA

- MRP in respect of the £57.423m payment made in 2012 to exit the Housing Revenue Account subsidy system has previously been determined as being equal to the principal amount repaid on the loans borrowed to finance that payment.
- However, as outlined in the Treasury Strategy deferment of the March 2027 MRP has been proposed to relieve balance sheet resources to be invested in the Council's housing stock. Repayment of this will be determined at a later stage.
- According to the HRA medium-term financial plan, MRP will then continue to be applied in line with principal repayments.

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

Based on the Council's latest estimate of its capital financing requirement (CFR) on 31st March 2023, the budget for MRP has been set as follows:

	31.03.2024 Estimated CFR	2024/25 Estimated MRP
	£m	£'000
Unsupported capital expenditure after 31.03.2008	6,822	40
Total General Fund	6,822	40
HRA subsidy reform payment	41,584	0
Total Housing Revenue Account	41,584	0
Total	48,406	40

Overpayments: In earlier years, the Council has made voluntary overpayments of MRP that are available to reduce the revenue charges in later years. These related to the purchase of receptacles to extend the kerbside recycling scheme in 2013, together with the repayment of the internal borrowing for the Grove Hall Extreme Sports projects. There is no plan to make any VRP in future years.