

Appendix A

Minimum Revenue Provision (MRP) policy statement for Spelthorne Borough Council

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 27 of the 2003 Regulations sets out a duty for local authorities to make a Minimum Revenue Provision (MRP) and Regulation 28 requires full Council to approve a 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. Regulation 27 (the duty to make revenue provision) was amended in April 2024 and takes effect from 7 May 2024, following a number of consultations. Key changes address some common practices used to underpay MRP, namely:
 - using proceeds from asset sales to replace the revenue charge; and
 - not making MRP on debt associated with investments.
5. In addition, the amendments to Regulation 27 include provisions for making MRP where a local authority borrows to lend the money onto a third party as a capital loan.
6. In setting a prudent level of MRP local authorities must "have regard" to guidance issued by the Secretary of State for Housing, Communities and Local Government. The latest version of this statutory MRP guidance, Capital finance: guidance on minimum revenue provision (5th edition), was issued by DLUHC (as it then was) in April 2024 to accompany the amendments to Capital Finance Regulations.
7. Paragraph 26 of the above statutory MRP Guidance explains that where a local authority proposes to deviate from statutory guidance and underpinning Codes of Practice, this has to be justified and agreed through the local authority's governance processes:

Under statute, local authorities must have regard to these codes; “have regards to” has a specific meaning that local authorities should comply with the guidance unless, having duly considered the guidance, there is justifiable reason to depart from it. Decisions that do not “have regard to” relevant guidance may be susceptible to challenge.

8. 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.
9. 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	Amortises 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

10. Two main variants of Option 3 are set out in the 2024 Guidance:
 - (i) the equal instalment method and
 - (ii) the annuity method.
11. The annuity method weights the MRP charge towards the later part of the asset’s expected useful life. Whilst this method is increasingly becoming the most common MRP option for local authorities, paragraph 42 of the Informal Commentary on the Statutory MRP Guidance explains that this method could be used where the flow of benefits from an asset are expected to increase in later years and should not be used solely to resolve budgetary issues.
12. The 2024 Guidance also includes specific recommendations for setting MRP in respect of finance leases, 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. Other approaches are not ruled out however they must meet the statutory duty to make prudent MRP provision each financial year.
13. With effect from 1 April 2024, MRP set aside requirements will also apply to “right of use” leased assets, following the introduction of IFRS 16.

Key changes from the 2024 amendments to Regulation 27

14. The key changes to Regulation 27 are:

- explicit prohibition from using capital receipts in place of charging MRP to revenue,
- a clear requirement to charge MRP on investments where these meet the statutory definitions of capital expenditure set out in Regulation 25,
- a requirement to set aside MRP on all elements of the CFR.

15. Where loans have been advanced to third parties for a capital purpose on or after 7 May 2024, a local authority is now required to determine whether the loan is for a commercial purpose (i.e. principally advanced for financial return) or is a non-commercial loan:

- for commercial loans MRP will be set aside using an asset life approach based on the expected useful life of the underlying assets being financed;
- for non-commercial loans MRP will comprise:
 - (i) the principal element of any loan repayments received during the financial year and
 - (ii) the amount of any expected credit loss (ECL) recognised during the financial year. Any ECL recognised will not be spread over future years.

Minimum Revenue Provision (MRP) policy statement

16. Having regard to the new 2024 Guidance on MRP issued by DLUHC (now 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:

MRP stream – General Fund	CFR at 31 3 2026 £000s	MRP 2026/27 £000s	Policy	Explanation	Change from previous policy?
Supported borrowing for capital expenditure incurred pre 2007/08	0	0	There is no MRP as the Council does not have any such borrowing	The Council has no such borrowing so no MRP requirement	The previous policy did not make clear that the Council did not hold any such borrowing and therefore no MRP would be due.
Unsupported capital expenditure incurred since 2007/08	1,043,605	51,871 (4.97%)	<p>MRP will be calculated for:</p> <ul style="list-style-type: none"> Investment property on a straight-line basis. All other asset categories on an annuity basis. <p>Both approaches will use the expected useful lives of the assets (Option 3), subject to a maximum useful asset life of 50 years.</p>	<p>This complies with the Option 3 (Para 58(b)) of the Guidance and the requirement for maximum asset lives of 50 years.</p>	The previous policy was based on an annuity approach which does not reflect the straight-line nature of the economic benefits provided by investment property to the Council.
MRP for “right of use” lease contracts.	1,927	476 (24.70%)	The amount of the MRP charge will be equal to the amount by which the balance sheet liability is written by the principal element of the annual payment (for leased assets)	This complies with para 80 of the MRP Guidance	The previous policy was to charge MRP on an annuity basis which did not reflect either the MRP Guidance or the pattern of expenditure under the contracts. The inclusion of liabilities in respect of right of use leased assets with effect from 1 April 2024 following the implementation of IFRS 16 will increase the amount of MRP charged but this will be offset by a reduction in the element of the unitary charge allocated to service cost.
Loans to third parties for a capital purpose advanced before 7 May 2024	31,584	727 (2.30%)	MRP will be calculated on a straight-line basis using the expected useful lives of the assets purchased by third parties (Option 3 – asset life), subject to a maximum useful asset life of 50 years and for modular/prefabricated properties 40 years.	This complies with the Option 3 (Para 58(b)) of the MRP Guidance and the requirement for a maximum asset life of 50 years.	Hitherto MRP had not been charged and instead applied the principal element of any capital receipts received as MRP. In the years where with there was no principal repayment the policy was to charge MRP using the annuity method under Option 3. This policy did not comply with the statutory MRP Guidance then in force.

MRP stream – General Fund	CFR at 31 3 2026 £000s	MRP 2026/27 £000s	Policy	Explanation	Change from previous policy?
Loans to third parties for a capital purpose advanced on or after 7 May 2024	11,266	53 (0.47%)	<p>(a) Commercial loans – MRP will be calculated on a straight-line basis using the expected useful lives of the assets purchased by third parties (Option 3 – asset life), subject to a maximum useful asset life of 50 years</p> <p>(b) Non-commercial loans – the principal element of loan repayments will be set aside as MRP. Where any expected credit loss is recognised in respect of that year or any previous year, the expected credit loss shall be charged to the General Fund as MRP.</p>	<p>This complies with the Option 3 (Para 58(b)) of the MRP Guidance and the requirement for a maximum asset life of 50 years.</p> <p>This complies with paras 72-78 of the MRP Guidance.</p>	<p>This makes the policy clearer in respect of commercial loans advanced.</p> <p>This makes the policy clearer in respect of non-commercial loans advanced.</p>
General Fund CFR and MRP at 31 March 2026	1,088,381	53,127 (4.88%)			

17. Detailed policies applied to asset life identification, discount annuity rates and MRP commencement dates are set out below:

MRP stream – General Fund	Policy	Explanation	Change from previous policy?
Asset lives	Asset lives used for MRP calculations will be determined by the Council's RICS-registered valuers and will be consistent with the depreciation policies set out in the Council's annual Statement of Accounts. 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 65 of the MRP Guidance.	Previously standard asset lives had been used which differed from those used for depreciation calculations.

MRP stream – General Fund	Policy	Explanation	Change from previous policy?
Discount rate for use when applying the annuity method for calculating MRP under Option 3	MRP will be discounted using the PWLB new loan annuity rate, relevant to the asset life period, applicable on 1 April in the year when MRP commences	The MRP Guidance does not suggest what discount rate(s) to use. By specifying the PWLB new loan annuity rate at 1 April of the year in which MRP commences this provides a clearly evidenced trail to the discount rate to be used and reflects the type of borrowing undertaken by the Council.	Previously the Council had not disclosed how it selected the discount rate used in annuity calculations.
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 MRP 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 63 and 64 of the MRP Guidance	No change in policy

Conclusion

18. Based on the above the Council's view is that by complying fully with the 2024 Statutory Guidance, it is making a prudent provision for MRP in line with the requirements of Regulation 28.