

Updated Minimum Revenue Provision (MRP) Policy Statement

Introduction

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 Authority to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the Guidance) most recently issued in 2018.

The broad aim of the 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 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, but authorities retain flexibility over their determination of what is prudent.

The proposed methodologies for use within Sandwell Metropolitan Borough Council are set out below and reflect the basic principles set out in the guidance, along with some locally determined and prudent modifications.

Proposed MRP Policy Statement for 2022/23

The following MRP Policy is proposed, under guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) is as follows:

- (a) MRP will be calculated on the Council's opening Capital Financing Requirement (CFR) for each financial year.
- (b) The CFR will be reduced by the appropriate amount for assets financed by debt but not yet operational, purely for the purposes of the MRP calculation. This will ensure that the revenue account will only be charged an MRP once the economic benefits of such asset are being realised.

- (c) For capital expenditure financed from debt arising up to 2007/08 and all new Government-supported borrowing arising from 2007/08 and thereafter - to spread the cost outstanding at the end of 2021/22 over the total average estimated life of assets held by the Council, but to use the annuity variant, based on the Councils Weighted Average Borrowing Rate as at 1st April 2022.
- (d) For capital expenditure that is self-financed from debt arising in 2007/08 and thereafter - to charge the expenditure over the expected useful life of the relevant asset (“the Asset Life Method”), but to use the annuity variant, based on the Councils opening weighted average borrowing rate in the year of the expenditure (rather than charging on a straight line basis over the asset life). For amounts outstanding at the end of 2021/22 the rate applied will be the Councils Weighted Average Borrowing Rate as at 1st April 2022 (i.e. the financial year of the change in MRP calculation).
- (e) In cases where asset lives cannot be readily determined - a default period of 20 or 25 years will be used in line with government guidance.
- (f) For ‘on-balance sheet’ Private Finance Initiative (PFI) contracts and Finance Leases – Annual principal repayments included in contract payments for PFI Schemes or finance leases are applied as MRP.
- (g) There is no requirement on the HRA to make a minimum revenue provision payment but there is a requirement to make a charge for depreciation.

The Guidance allows Councils to choose to provide more MRP in any given year. This is known as a Voluntary Revenue Provision (VRP). Any VRP provided in year, along with the total cumulative amount must be disclosed in the MRP Policy Statement. Up until the 31 March 2022 the total VRP overpayments made by the General Fund account was £5.423m.