

MINIMUM REVENUE PROVISION (MRP) STATEMENT

Introduction

Where the Authority 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 DLUCH Guidance”) most recently issued in 2018.

The broad aim of the DLUCH 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 Government is currently consulting on changes to the statutory guidance and regulations regarding MRP. The Government is ‘*aware that some local authorities employ practices which result in the underpayment of MRP*’. As the Council does not engage in the practices the Government are trying to prohibit, the introduction of these proposed changes are unlikely to affect the policy statement below.

The DLUCH 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 Blackburn with Darwen Borough Council are set out below and reflect the basic principles set out in the DLUCH Guidance, along with some locally determined and prudent modifications.

Proposed MRP Policy Statement for 2024/25

The following MRP Policy is proposed:

- (a) *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 38 years (from 2022/23 through to 2059/60), but to use the annuity variant, based on the average Public Works Loan Board (PWLB) annuity rates prevailing at 28 July 2022. **Annex 1** shows the profile of MRP charges on this debt.
- (b) *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 average PWLB annuity rates prevailing in the year of the expenditure (rather than charging on a straight line basis over the asset life).
- (c) *For ‘on-balance sheet’ Private Finance Initiative (PFI) contracts* - to use the annuity variant of the Asset Life Method, using the annuity rates built into the financing arrangements for the contracts. This means that the MRP will relate to the estimated asset life and may not match the value written down each year against the balance sheet liability of the respective lease or PFI contract.
- (d) *For assets acquired by leases* – MRP will be determined as being equal to the principal element of the rent or charge that goes to write down the balance sheet liability.

- (e) Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- (f) *For historic debt that was entered into prior to unitary authority status and is managed by Lancashire County Council (LCC)* - to spread the cost using an annuity variant, based on the average PWLB annuity rates prevailing on 28 July 2022, over 38 years (up to 2059/60), in alignment with the profile for historic supported borrowing.
- (g) *In those cases where asset lives cannot be readily determined* - to use a default period of 20 or 25 years in line with government guidance. However the Council may make its own determination in exceptional circumstances, if the recommendation of the guidance would not be appropriate.
- (h) For capital expenditure loans to third parties, the Authority will make nil MRP unless
 - (a) the loan is an investment for commercial purposes and no repayment was received in year or
 - (b) an expected credit loss was recognised or increased in-year,but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the Government in its recent MRP consultation and in the Authority's view is consistent with the current regulations.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

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

Therefore, in the determination of MRP, the Council will be both:

- (a) **prudent** - working within the principle that debt be repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits, and
- (b) **practical** - making detailed determinations where the impact of the calculation will be material, but allowing a more general approach if that would be reasonable.

Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2024, the budget for MRP has been set as follows:

Appendix 3

	31 March 2024 Estimated CFR £m	2024/25 Forecast MRP £m
Capital Expenditure	200.4	6.2
Private Finance Initiatives	14.5	0.2
Transferred Debt	68.7	0.2
Total	283.6	6.6

The table above excludes a £2.5 million increase in the 2024/25 MRP charge arising from a change in the accounting for leases

<u>Supported Borrowing Minimum Revenue Provision Profile</u>										
<u>Year</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>	<u>2031/32</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Annual MRP Charge	1,145.5	1,187.3	1,230.7	1,275.6	1,322.1	1,370.4	1,420.4	1,472.3	1,526.0	1,581.7
<u>Year</u>	<u>2032/33</u>	<u>2033/34</u>	<u>2034/35</u>	<u>2035/36</u>	<u>2036/37</u>	<u>2037/38</u>	<u>2038/39</u>	<u>2039/40</u>	<u>2040/41</u>	<u>2041/42</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Annual MRP Charge	1,639.4	1,699.3	1,761.3	1,825.6	1,892.2	1,961.3	2,032.9	2,107.1	2,184.0	2,263.7
<u>Year</u>	<u>2042/43</u>	<u>2043/44</u>	<u>2044/45</u>	<u>2045/46</u>	<u>2046/47</u>	<u>2047/48</u>	<u>2048/49</u>	<u>2049/50</u>	<u>2050/51</u>	<u>2051/52</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Annual MRP Charge	2,346.3	2,431.9	2,520.7	2,612.7	2,708.1	2,806.9	2,909.4	3,015.6	3,125.6	3,239.7
<u>Year</u>	<u>2052/53</u>	<u>2053/54</u>	<u>2054/55</u>	<u>2055/56</u>	<u>2056/57</u>	<u>2057/58</u>	<u>2058/59</u>	<u>2059/60</u>	<u>2060/61</u>	<u>Total</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Annual MRP Charge	3,358.0	3,480.5	3,607.6	3,739.3	3,875.7	4,017.2	4,163.8	4,315.8	-	91,173.6