Minimum Revenue Provision Statement 2011/12

1. Introduction

This annual statement needs to be approved by the County Council. It arises from statutory guidance initially issued by the Department of Communities and Local Government (DCLG) in 2008 and updated in 2010. Local Authorities are required to make a prudent charge to the revenue account in respect of provision to repay debt and other credit liabilities (mainly finance leases or PFI contracts). This is referred to as the Minimum Revenue Provision (MRP).

Guidance issued by the DCLG provides four options which can be used for the purpose of calculating the MRP.

2. The Four Options explained

The first two options, the Regulatory and Capital Financing Requirement methods, can be applied to borrowing supported by government via Revenue Grants.

For capital expenditure financed by unsupported borrowing, as allowed under the Prudential Code, the guidelines identify the Asset Life method or the Depreciation method as possible alternatives.

- Regulatory Method

  Before the Prudential system of capital finance was introduced in 2004 the MRP was calculated at 4% of the credit ceiling. On the introduction of the Prudential Code this was changed to a charge of 4% of Capital Financing Requirement, which is derived from the Balance Sheet and broadly represents the outstanding debt used to finance fixed assets. However, to avoid changes in the charge to revenue in 2004/5 an adjustment figure was calculated which would then remain constant over time. For technical accounting reasons this methodology would have led to an increase in the MRP, and would therefore have had an impact upon the County Council's budget, so this method has not been used and is not recommended for future use.

- Capital Financing Requirement (CFR) method

  This option allows for the MRP to be calculated as 4% of the Capital Financing Requirement. The CFR is derived from the Balance Sheet and represent the value of the fixed assets, for which financing provision has not already been made. This method of calculation has been used at the County Council since the introduction of the MRP in 2004

- Asset Life Method

Guidelines for this method allow for a MRP to be calculated based on the estimated life of the asset. The actual calculation can be made in two ways as shown below;

A straightforward calculation to set an equal charge to revenue over the estimated life of the asset. This charge will not be varied by the state of the asset or,

By the use of an annuity method. This provides for greater charges in the later years of the assets life and should only be used if it can be demonstrated that benefits are likely to increase in the later years.

- Depreciation method

This requires a charge to be made of depreciation in line with normal accounting conventions. This could include the impact of any revaluations, and would be calculated until the debt has been repaid.

3. Finance Leases and PFI

With changes in accounting regulations to adopt International Financial Reporting Standards assets held under a PFI contract now form part of the Balance Sheet. This has increased the capital financing requirement and on a 4% basis the potential charge to revenue. To prevent such an increase impacting on the revenue budget the guidance permits a prudent MRP to equate to the amount charged to revenue under the contract to repay the liability. In terms of the PFI schemes this charge forms part of the payment due to the PFI contractor.

4. Application at Lancashire County Council

It is proposed that the Capital Financing Requirement option is applied to all supported borrowing.

It is proposed that the Asset Life method (Equal Charge approach) is to be applied to capital expenditure financed by unsupported borrowing.

It is proposed that PFI payments will be made in line with the amounts due to repay the liability under the contract.