

Minimum Revenue Provision Statement 2023/24

1. Introduction

This annual statement required to be approved by the county council arises from statutory guidance initially issued by the then Department of Communities and Local Government in 2008. This has been updated with the latest guidance issued by the Ministry for Housing, Communities and Local Government in 2018.

Local authorities are required each year to make a charge to the revenue account in respect of provision to repay capital expenditure financed by borrowing or credit arrangements (mainly finance leases or Private Finance Initiative contracts). The charge to revenue is one that the authority considers to be prudent and is referred to as the Minimum Revenue Provision.

Guidance issued by the previous Ministry for Housing Communities and Local Government identifies four options which can be used for the purpose of calculating the Minimum Revenue Provision. However, the legal requirement is to set a prudent charge and therefore authorities are free to move away from the guidance if they feel it is appropriate.

2. The Four Options Explained

The first two options, the Regulatory and Capital Financing Requirement methods, can be applied to borrowing which is supported by government via Revenue Support 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 Code system of capital finance was introduced in 2004 the Minimum Revenue Provision 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 the fixed assets. However, to avoid changes in the charge to revenue in 2004/05 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 charge to revenue 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 Minimum Revenue Provision to be calculated as 4% of the Capital Financing Requirement. This is derived from the Balance Sheet and represents 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 Minimum Revenue Provision in 2004.

Asset Life Method

Guidelines for this method allow for the charge to be calculated based on the estimated life of the asset. The actual calculation can be made in two ways, namely:

- a) A 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.
- b) 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.

The latest guidance states that the asset lives to be used should not usually exceed 50 years. This maximum can be exceeded if the authority has received an opinion from an appropriately qualified valuer or the asset is leased or acquired under a Private Finance Initiative which is for a duration in excess of 50 years.

Depreciation method

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

3. Leases* and Private Finance Initiative

(*Now includes all leases not just finance leases)

Assets held under a Private Finance Initiative contract and leases 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 the increase the guidance permits a prudent charge to equate to the amount charged to revenue under the contract to repay the liability.

4. Application at Lancashire County Council

The relevant regulations require that the council make "prudent provision" for the repayment of debt, and departure from the options outlined is permissible if an alternative option is considered more appropriate.

Supported borrowing

From 2008/09 to 2014/15 the Capital Financing Requirement option has been applied to all supported borrowing incurred before 1 April 2007. This charge was based on 4% of the outstanding capital financing. However, the charge was based on a 4% reducing balance which never effectively repays the debt. It was also considered that the 4% charge over-estimated the level of support within the revenue support grant. From 2015/16 the charge was made with reference to the capital financing requirement based upon a 50-year life rather than a reducing balance. In 2017/18 it was considered that there had been an over-payment of Minimum Revenue Provision in earlier years

and therefore the Minimum Revenue Provision for years from 2017/18 would be reduced to £1 until the overpayment had been recovered. This will continue to be the case in 2023/24 and therefore the Minimum Revenue Provision charge for the supported debt will be £1. In summary the overpayment position is:

MRP Overpayments	£m
Actual balance 31/03/2022	85.1
Drawdown 2022/23	8.9
Expected balance 31/03/2023	76.2
Drawdown 2023/24	8.9
Expected balance 31/03/2024	67.3

Unsupported borrowing

The Minimum Revenue Provision for capital expenditure financed from unsupported borrowing has been calculated using the Asset Life Method on an annuity basis. It is proposed that this continues for calculating the Minimum Revenue Provision for 2023/24. This includes expenditure incurred in 2008/09 to 2014/15, when the Minimum Revenue Provision was initially calculated using the Asset Life method (Equal Charge approach).

Private Finance Initiative and any leases payments will be made in line with the amounts due to repay the liability under the contract.

Minimum Revenue Provision will not be made in relation to new assets until the financial year after which the project is deemed to be operational.

Overpayments

The guidance does allow for charges in excess of the minimum to be made. It is not proposed that any overpayments will be made in 2023/24.

5. Recommendations

In respect of the methodology for applying the Minimum Revenue Provision for the repayment of debt, it is recommended that the Full Council:

- a) Approves the Capital Financing Requirement method and the Asset Life method for expenditure as outlined in section four.
- b) Charges to revenue a sum equal to the repayment of any credit liability.
- c) Approve the policy of not starting to charge to revenue until the financial year after the capital project is operational.