Appendix 'C'

Minimum Revenue Provision Statement 2014/15

1. Introduction

This annual Statement required to be approved by the County Council 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 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 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 the fixed assets. However, to avoid changes in the charge to revenue in 2004/5 an adjustment figure was calculated which would then remain constant overtime. 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 purposes. 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 in 2009/10 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 the increase 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 LCC

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

From 2008/09 onwards the Capital Financing Requirement option has been applied to all supported borrowing. It is proposed to continue do this for any capital expenditure funded from supported borrowing brought forward from 2011/12 or later.

For 2008/09 onwards the Asset Life method (Equal Charge approach) has been applied to capital expenditure financed by unsupported borrowing. It is proposed to continue with this methodology, except as outlined below.

PFI 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 the following specific circumstances:

For assets constructed as part of the Preston, South Ribble and Lancashire City Deal where the borrowing will be repaid from other capital financing sources within the life of the City Deal, this is temporary borrowing that will be repaid from sources such as Community Infrastructure Levy and funding from the Homes and Communities Agency when the development facilitated by the construction of County Council assets has taken place. Thus an alternative prudent plan for repayment is in place. However, this position will be reviewed each year in the light of progress with the City Deal.

For borrowing associated with the Homes and Communities Agency Local Infrastructure Fund where the relevant assets and hence repayment are delivered through a Development Company which generates the income stream to ensure repayment of the liability. Again this provides an alternative prudent plan for repayment in line with the loan terms. The position will be subject to annual review.

5. Recommendations

In respect of the methodology for applying the minimum revenue provision in respect of the repayment of debt, Cabinet is asked to recommend that the Full Council:

1. Approves the Capital Financing Requirement method and the Asset Life method (Equal Charge approach) for expenditure funded from borrowing incurred in 2013/14 and future years.
2. Charges to revenue a sum equal to the repayment of any credit liability.
3. Approves the proposed treatment of assets constructed under the Preston, South Ribble and Lancashire City Deal and the Homes and Communities Agency Local Infrastructure Fund, subject to annual review.