

Minimum Revenue Provision Policy Statement 2020/21

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 Homes, 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 (MRP).

Guidance issued by the Ministry for Homes, Communities and Local Government continues to identify 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.

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 the 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 overtime. 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 method

This option allows for the MRP 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 MRP 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:

1. 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.
2. 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.

Finance leases and Private Finance Initiative

Assets held under a Private Finance Initiative contract 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.

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-estimates the level of support within the Revenue Support Grant. From 2015/16 the charge has still been made with reference to the capital financing requirement but it is based upon a 50 year life rather than a reducing balance. In 2017/18 it was considered that there had been an overpayment of MRP in earlier years and therefore the MRP for years from 2017/18 would be reduced to £1 until the overpayment had been recovered. This will continue to be the case in 2020/21 and therefore the MRP charge for the supported debt will be £1.

Unsupported borrowing

The MRP 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 MRP for 2020/21. This includes expenditure incurred in 2008/09 to 2014/15 when the MRP was initially calculated using asset life method (equal charge approach).

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

MRP 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 light of progress with the City Deal.

For new assets no MRP will be charged 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 2020/21.

Summary of recommendations

In respect of the methodology for applying the MRP in respect of the repayment of debt, it is recommend that the Full Council:

- Approves the capital financing requirement method and the asset life method for expenditure.
- Charges to revenue a sum equal to the repayment of any credit liability.
- Approves the proposed treatment of assets constructed under the Preston, South Ribble and Lancashire City Deal subject to annual review.
- Approve the policy of not commencing charges to the revenue account until the capital project is operational.