Appendix 3

The Council's Annual Minimum Revenue Provision Statement

Statutory Requirements

The Council is required by statue to set aside a minimum revenue provision (MRP) to repay external debt. The calculation of the minimum revenue provision (MRP) is as per the *Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414].* In the new regulation 28, detailed rules are replaced with a simple duty for an authority to make an amount of MRP which it considers to be "prudent".

The broad aim of a prudent provision is to ensure that debt is repaid 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 guidance includes four options (and there are two alternatives under Option three) for the calculation of a prudent provision.

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial years. There is also no requirement to charge MRP on the Housing Revenue Account share of the CFR.

The legislation recommends that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to the Full Council for approval.

Policy for calculation of Prudent Provision

The options for the calculation of a prudent Provision are detailed in appendix 3A to this report. In line with previous years the Council proposes to use option one, regulatory method and option three (a), asset life method – equal instalment method.

Regulatory Method

For debt which is supported by the Government through the RSG system, MRP will continue to be calculated in accordance with the former regulations 28 and 29 of the 2003 Regulation. Adjustment "A" (variance between the credit ceiling and the capital financing requirement as at 1 April 2004) will continue to be given the value attributed to it in the financial year 2004/05. Authorities can also continue to take advantage of the commutation adjustment in the former regulation 29.

MRP is calculated using opening Capital Financing Requirement which is adjusted for new supported capital expenditure, adjustment "A", non Shropshire Council (pre-1998 LGR reorganisation) debt and the MRP for the previous year. MRP is calculated as 4% of this adjusted total. This is then reduced by the value of the commutation adjustment for that financial year.

This option reduces the Capital Financing Requirement by adjustment "A" which reduces the MRP charged to revenue each year. This is allowable in accordance with the regulations.

Asset Life Method – Asset Life method

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed (unsupported borrowing) the MRP has been calculated in accordance with option three Asset Life Method. Option three is to make provision over the estimated life of the asset for which the borrowing is undertaken.

Freehold land cannot properly have a life attributed to it, so for the purposes of Option three it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate. For energy efficiency schemes the payback period of scheme is used as the basis for calculating the period over which MRP is calculated.

This method is a straight forward calculation of MRP for unsupported borrowing which calculates MRP based on asset life.

As with option one, provision for debt under Option three will normally commence in the financial year following the one in which the expenditure is incurred. But the guidance highlights an important exception to the rule. In the case of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This "MRP holiday" would be perhaps two or three years in the case of major projects, or possibly longer for some complex infrastructure schemes, and could make them more affordable. The Council does not have any unsupported borrowing that falls into this area at present.

The authority can still make voluntary extra provision for MRP in any year.

PFI Assets and assets held under Finance Leases

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

Housing Revenue Account MRP

Under housing self-financing debt of £83.781m will transfer to the Council as at 31 March 2012 for the Housing Revenue Account. In managing the HRA debt and considering the HRA business plan there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA. The annual level of provision will be determined annually as part of the closure of the HRA.

2012/13 Annual MRP Statement

Appendix 3B provides the MRP statement for the 2012/13 financial year.

Capital Receipts set aside

The current regulations, Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414] state that the minimum revenue provision is calculated using the previous year's closing Capital Financing Requirement for supported borrowing.

In 2009/10 Shropshire Council got DCLG approval to allow the new council to voluntarily set aside capital receipts as at 1st April 2009 to reduce the CFR and consequently reduce the MRP charge for 2009/10. This approach was discussed with our Treasury Advisors and External Auditors and was approved by Members in a report to Council in December 2009.

As the extent of new borrowing is not subject to any limitation the sum of capital receipts set aside are still available to support capital expenditure in future years. This will increase the CFR to its previous level and the MRP charge in future years will increase, but not beyond the level had the saving not been generated in 2009/10. Thus the saving in MRP is therefore temporary, albeit very helpful to the short-term financial position.

As the full level of capital receipts set aside were not required to finance capital expenditure in 2009/10 and again in 2010/11, a balance was retained as set aside as at 31 March 2010 and again at 31 March 2011 to enable a further MRP savings in 2010/11 and 2011/12. In the 2012/13 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2011 to reduce the CFR will be offset by an increase in the CFR in 2011/12 from capital expenditure incurred in 2011/12. In the event that the level of capital expenditure in 2011/12 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2012/13.

Appendix 3A: Options for Prudent Provision

Option 1: Regulatory Method (Supported borrowing)
MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

Option 2: CFR Method (Supported borrowing)
MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation.

Option 3: Asset Life Method (Unsupported borrowing)
Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

(a) Equal instalment method
MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

Where:
A is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements
B is the total provision made before the current financial year in respect of that expenditure
C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

For the purpose of the above formula in the initial year of making the MRP the variable "C" should be given the maximum values set out in the following table:

Expenditure Type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a direction under s16(2)(b)	"C" equals 20 years
Regulation 25(1)(a) Expenditure on computer programs	"C" equals the value it would have for computer hardware
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the estimated life of the assets in relation to which the third party expenditure is incurred
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years, or the period of the loan, if longer
Regulation 25(1)(d) Acquisition of share or loan capital	"C" equals 20 years
Regulation 25(1)(e) Expenditure on works to assets not owned by the authority	"C" equals the estimated life of the assets
Regulation 25(1)(ea) Expenditure on assets for use by others	"C" equals the estimated life of the assets
Regulation 25(1)(f) Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	"C" equals 25 years

(b) Annuity method
MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation Method (Unsupported borrowing)
MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose standard depreciation accounting procedures should be followed, except in the following respects.

(a) MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.

(b) On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.

(c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

Basis of options

Supported Borrowing – The total Adjustment A for the Council is £4.45m (including previous District debt), thus by using option 1 Regulatory method the MRP charge is reduced by £178,000 per annum.

Unsupported Borrowing – As the Council policy is to calculate depreciation based on asset life option 3A and 4 would result in the same MRP charge (i.e. for a £1m borrowed to finance an asset with an estimated life of 25 years the annual MRP charge would be £40,000 per annum). If option 3B was used the MRP charge would be lower in the earlier years, but increase annually each year. Borrowing £1m over 25 year at 6% the MRP charge would increase from £18,000 in year 1 to £74,000 in year 25, with compensating adjustments to the interest payment, thus there would be no saving for the Council.

Appendix 3B: Minimum Revenue Provision Statement 2012/13

	£
Supported Borrowing – Option 1	
General Fund	
Closing CFR 2010/11	259,976,520.96
Add SCE (R) 2011/12	0
Add use of capital receipts voluntarily set aside (applied 2011/12)	9,178,761.58
	269,155,282.54
Less Adjustment “A”	(2,065,478.00)
Less LGR (98) Debt	(609,798.00)
	266,480,006.54
Less MRP 2011/12	(10,439,097.80)
CFR for Supported Borrowing MRP Calculation	**256,040,908.74**
Add back Adjustment “A”	2,065,478.00
Add back LGR (98) Debt	609,798.00
	258,716,184.74
District inherited debt:	
OBC – Closing 2011/12 CFR	4,590,881.76
NSDC – Closing 2011/12 CFR	634,896.28
	5,225,778.04
Closing CFR 31/03/12 – Supported Borrowing (GF)	**263,941,962.78**
Housing Revenue Account	
Closing CFR 2010/11	1,244,619.49
Add HRA Self Financing transferred 2011/12	83,781,000.00
Add SCE (R) 2011/12 – Decent Homes Backlog	1,200,000.00
	86,225,619.49
Closing CFR 31/03/12 – Supported Borrowing (GF&HRA)	**350,167,582.27**
Unsupported Supported Borrowing – Option 3	
Unsupported Borrowing brought forward	16,437,486.01
Add prudential borrowing 2011/12	2,614,347.65
Less MRP – Previous year	(812,105.17)
	18,239,728.49
District inherited debt: NSDC – Closing 2010/11 CFR	**815,733.10**
Closing CFR 31/03/10 – Unsupported Supported Borrowing	**19,055,461.59**
Closing CFR (GF&HRA) 31/03/12 – Borrowing Requirement	**369,223,043.86**
Additional items included:	
Salix Soft Loan	294,576.25
Capitalisation Redundancies	546,154.45
	370,063,774.56

Summary MRP

MRP 2012/13 at 4% of above (Option 1)	9,373,456.35
LGR (98) Debt MRP (Option 1)	1,020,807.00
Unitary inherited – OBC & NSDC (Option 1)	113,790.89
Prudential Borrowing MRP (Option 3)	1,425,974.37
Unitary inherited Prudential Borrowing MRP – NSDC (Option 3)	48,413.32
Total MRP 2012/13	**11,982,441.94**
Additional items MRP:	
Salix Soft Loan	117,830.50
Capitalisation Redundancies	273,077.23
Total MRP (additional items) 2012/13	**390,907.73**