Appendix 3 – Comparison of Straight-line and Annuity MRP methods

Projection of costs based on Straight Line Minimum Revenue Provision			
	Optimistic- 2.25% interest and £16,000 "Other Costs"	Central - 2.65% interest and £20,000 "Other costs"	Pessimistic-3.05% interest and £24,000 "Other Costs"
Total Annual Costs (Note 1)	£728,500	£792,500	£856,500
Rental Returns (Assumption 4)			
5.25% Yield	£787,500	£787,500	£787,500
6.00% Yield	£900,000	£900,000	£900,000
6.75% Yield	£1,012,500	£1,012,500	£1,012,500
7.50% Yield	£1,125,000	£1,125,000	£1,125,000
Net (Surplus)/Deficit:			
Based on Yield achieved:			
5.25% Yield	(£59,000)	£5,000	£69,000
6.00% Yield	(£171,500)	(£107,500)	(£43,500)
6.75% Yield	(£284,000)	(£220,000)	(£156,000)
7.50% Yield	(£396,500)	(£332,500)	(£268,500)

Note 1: Total Annual Costs are made up of Interest on borrowing, MRP and other running costs, including bad debt provision, void property costs etc.

Assumptions

1) Using the MRP Straight Line Method (i.e. £375k per year based on £15m investment)

2) Loans are not repaid in instalments; therefore interest costs shown above are based on whole £15m investment, not on a reducing balance

3) Figures shown above assume a full year's costs on the whole £15m investment and a full year's rental income; in reality, in early years, costs may be reduced due to interest not being payable for a full 12 months; there will also be a MRP holiday in the year of borrowing, so the full MRP costs will only apply from the following financial year. However, some rental income may be reduced if any reduced rent periods are agreed with tenants.

4) No account has been taken for any increase in rental income due to "upward" rent reviews over the period of the asset life (40 years)

Appendix 3 – Comparison of Straight-line and Annuity MRP methods

Projection of costs based on Annuity Method Minimum Revenue Provision			
	Optimistic- 2.25% interest and £16,000 "Other Costs"	Central - 2.65% interest and £20,000 "Other costs"	Pessimistic-3.05% interest and £24,000 "Other Costs"
Total Annual Costs			
Years 1 - 5 (Average per year)	£599,480	£663,480	£723,480
Years 6-10 (Average per year)	£628,430	£692,430	£752,430
Years 11-20 (Average per year)	£678,860	£742,860	£802,860
Years 21-30 (Average per year)	£759,950	£823,950	£883,950
Years 31-40 (Average per year)	£861,230	£925,230	£985,230
Rental Returns (Assumption 4)			
5.25% Yield	£787,500	£787,500	£787,500
6.00% Yield	£900,000	£900,000	£900,000
6.75% Yield	£1,012,500	£1,012,500	£1,012,500
7.50% Yield	£1,125,000	£1,125,000	£1,125,000
Net (Surplus)/Deficit:			
Based on Yield achieved:			
5.25% Yield:			
Years 1-5	(£188,020)	(£124,020)	(£64,020)
Years 6-10	(£159,070)	(£95,070)	(£35,070)
Years 11-20	(£108,640)	(£44,640)	£15,360
Years 21-30	(£27,550)	£36,450	£96,450
Years 31-40	£73,730	£137,730	£197,730
6.00% Yield:			
Years 1-5	(£300,520)	(£236,520)	(£176,520)
Years 6-10	(£271,570)	(£207,570)	(£147,570)
Years 11-20	(£221,140)	(£157,140)	(£97,140)
Years 21-30	(£140,050)	(£76,050)	(£16,050)
Years 31-40	(£38,770)	£25,230	£85,230
6.75% Yield:			
Years 1-5	(£413,020)	(£349,020)	(£289,020)
Years 6-10	(£384,070)	(£320,070)	(£260,070)
Years 11-20	(£333,640)	(£269,640)	(£209,640)
Years 21-30	(£252,550)	(£188,550)	(£128,550)
Years 31-40	(£151,270)	(£87,270)	(£27,270)
7.50% Yield:			
Years 1-5	(£525,520)	(£461,520)	(£401,520)
Years 6-10	(£496,570)	(£432,570)	(£372,570)
Years 11-20	(£446,140)	(£382,140)	(£322,140)
Years 21-30	(£365,050)	(£301,050)	(£241,050)
Years 31-40	(£263,770)	(£199,770)	(£139,770)

Note 1: Total Annual Costs are made up of Interest on borrowing, MRP and other running costs, including bad debt provision, void property costs etc.

Assumptions

1) Using the MRP Annuity Method using an appropriate interest rate of 1.4% (this equates to an assumption that rental reviews result in a 7% upward lift every 5 years).

2) Loans are not repaid in instalments; therefore interest costs shown above are based on whole £15m investment, not on a reducing balance

3) Figures shown above assume a full year's costs on the whole £15m investment and a full year's rental income; in reality, in early years, costs may be reduced due to interest not being payable for a full 12 months; there will also be a MRP holiday in the year of borrowing, so the full MRP costs will only apply from the following financial year. However, some rental income may be reduced if any reduced rent periods are agreed with tenants.

4) No account has been taken for any increase in rental income due to "upward" rent reviews over the period of the asset life (40 years)