Recommendations to the Council

Treasury Management, Annual Investment and Minimum Revenue Provision Strategies 2013/14

1. The management of the County Council's cash flows and borrowing have a significant impact on the budget.

The Cabinet, at their meeting on 16 January 2013, approved the proposed strategies for the 2013/14 financial year.

Adoption of the Annual Investment Strategy (AIS) and the adoption of the Minimum Revenue Provision policy are however, matters that are reserved for the Full Council to determine.

2. **Recommend** – That, in accordance with the regulations:

(a) The Annual Investment Strategy (AIS) 2013/14 as described in paragraphs 35 to 85 and as detailed in Appendices 2, 3 and 5 of the report considered by the Cabinet (attached) be adopted.

(b) That the Minimum Revenue Provision (MRP) policy 2013/14 as summarised in paragraphs 125 to 127; and as set out in full at Appendix 9 to the report considered by the Cabinet (attached), be adopted.

Members' Allowances Scheme - Independent Remuneration Panel Report

3. The County Council is required to establish and maintain an Independent Remuneration Panel to provide advice and recommendations to the Council on its Members' Allowances Scheme. Any decisions on the nature and level of allowances are a matter for the full Council, but the Council must have regard to any recommendations submitted by the Independent Remuneration Panel before establishing or amending the Members' Allowances Scheme. The Panel meets each year to consider the recommendations to be made to the Council in respect of the level and nature of the forthcoming year's allowances.

(**Note**: The Independent Remuneration Panel's report of March 2013, including recommendations on the Members' Allowances Scheme for 2013/14 has been sent to all members of the County Council and copies have been placed in the group rooms and members' library in County Buildings; alternatively a copy is available at - http://www.staffordshire.gov.uk/yourcouncil/members/membersallowances/IRPreport-2013-14.pdf

4. **Recommend** – (a) The Council's views on the recommendations of the Independent Remuneration Panel are requested.

(b) The period of office for Ray Betteridge, Jane Landick, Gerald Griffin and Ian Starkie as members of the Independent Remuneration Panel be extended for a further period of 12 months to 31 March 2014.

Staffordshire and Stoke-on-Trent Joint Waste Local Plan 2010 – 2026

5. The County Council has worked jointly with Stoke-on-Trent City Council to prepare the Staffordshire and Stoke-on-Trent Joint Waste Local Plan 2010 – 2026[1]. The key waste planning issues addressed by the Plan are:

- to improve the quality of our existing and proposed waste infrastructure;
- to provide an effective locational strategy in delivering a sustainable distribution of waste management sites;
- to plan to treat an amount of waste at least equivalent to that generated in the plan area; and,
- to continue to reduce our reliance on landfill through ambitious targets for landfill diversion and targets for new waste management facilities higher up the waste hierarchy i.e. recycling facilities.

The new policies in the Plan will guide the Councils in determining planning applications for the development of waste management facilities up to 2026. The Plan will replace the policies in the Staffordshire and Stoke-on-Trent Waste Local Plan 1998 – 2011 adopted in 2003. The Plan will also meet requirements to ensure compliance with the EU Waste Framework Directive.

The Joint Waste Local Plan was submitted to the Secretary of State on 20 January 2012 (approved by the County Council and City Council on 8 December 2011) and was subject to examination by an independent Planning Inspector. The examination tested whether the Plan is "sound" as defined by the National Planning Policy Framework as well as legal and procedural requirements. Examination hearings were held on 24 and 27 April 2012 with a final hearing session on 19 June 2012.

Main modifications and minor changes (endorsed by the County Council Planning Committee in August 2012, approved by the City Council Cabinet in August 2012 and the County Council Cabinet in September 2012, and consulted on during October and November 2012) were submitted to the Planning Inspector in January 2013 for consideration alongside the submitted Plan. On 4 February 2013, the Councils received the Planning Inspector's report which concluded that with the main modifications proposed by the Councils, the Joint Waste Local Plan was sound, legally compliant and capable of adoption. The Inspector also considered that the minor changes proposed by the Councils provided factual updates, corrections of minor errors or other minor amendments in the interests of clarity and would help to improve the plan.

The most significant finding of the Inspector's report was that the Councils will not be required by the Planning Inspectorate to produce a Site Allocations Development Plan Document. The Inspector (in paragraph 61 of his report) states that 'The decision not to identify specific new sites for the location of waste facilities, in the context of this Plan, is a sound judgement'. Therefore subject to annual monitoring of the waste policies, no further work is required on waste policy formulation and the Planning Policy Team can now concentrate on the review of our Minerals Local Plan.

[1] The Joint Waste Core Strategy has been re-named as the Staffordshire and Stoke-on-Trent Waste Local Plan 2010 to 2026 as a result of reforms to the planning system.

This report seeks approval from the Full Council to adopt the Staffordshire and Stoke-on-Trent Joint Waste Local Plan. The same approval is also being sought from Stoke-on-Trent City Council on 21 March 2013. Copies of the adoption documents and the Inspector's Report have been placed for inspection in the Members' library and are available via the County Council's Waste Policy web page (www.staffordshire.gov.uk/wcs).

6. **Recommendation** – That the Staffordshire and Stoke-on-Trent Waste Local Plan 2010 – 2026 be adopted with the main modifications and minor changes as recommended by the Inspector in accordance with section 23 of the Planning and Compulsory Purchase Act 2004 and made available in accordance with Regulations 26 and 35 of the Town and Country Planning (Local Development) (England) Regulations 2012.

ANNUAL INVESTMENT STRATEGY (AIS) 2013/14

35. The Council manages an investment portfolio that can reach up to £200m in cash each year.

36. An important aspect of the AIS is the creditworthiness service provided by the treasury management consultant. At the time of writing this report the current contract with Sector Treasury Services is drawing to a close and from 1 April 2013 it is possible that a new consultant will be appointed.

37. It is not possible to pre-judge who will be successful and in these circumstances this report cannot set down the detailed system of how the credit management advice from the consultant will operate in tandem with the Council's treasury operations from the 1 April 2013. A proposal to deal with this issue is made at **paragraph 55.**

38. However, it is important to recognise that this will not compromise the stance taken to date by the Council which has been to adopt a low risk approach in these difficult times.

Investment Options

39. The main characteristics which determine an investment strategy are related to:
    - the credit risk of the counterparties that you invest with;
    - the length of the investment; and
    - the type of financial instrument that is used.

40. These issues have to be considered in the light of the regulatory framework provided by the Government.

41. Key parts of this framework are the Government Guidance on Local Government Investments issued in March 2010 and the CIPFA Code of Practice for Treasury Management in the Public Services (the Code). These state that that the two prime risk issues are:
    - the security of capital; and
    - the liquidity of investments.

42. In addition, Government regulations specify the type of financial instruments you can invest in and they divide them into what they term 'specified' investments and 'non-specified' investments.

a) Specified Investments

43. Specified investments are investments made in sterling for a period of less than a year that are not counted as capital expenditure and are invested with:
    - the UK Government;
    - a local authority;
    - a parish or community council; or
    - a body, or in an investment instrument, **that has a 'high credit rating'.**

44. The first three named investments are effectively "AAA" rated investments, the highest possible investment rating, and the Council will include these bodies on

its lending list by virtue of this fact and their inclusion within the guidance. The assessment of the fourth aspect is dealt with in the paragraphs that follow.

Credit Rating Criteria and the Approved Lending List (the List)

45. The way that the regulations are worded means that the Council has to decide what a 'high credit rating' is and how it uses credit ratings in this assessment.

46. Credit ratings are an important source of information for local authorities. They are carried out by credit rating agencies (for example, Fitch, Standard and Poors, Moodys).

47. Government guidance requires an explanation of how credit ratings are monitored, what happens when they change and what other additional sources of information are used to supplement them.

Money Market Funds (MMF) – "AAA rated"

48. Diversified MMF's are rated by at least one of the rating agencies referred to earlier. In order to achieve the highest "AAA" rating the MMF must abide by certain investment restrictions, for example on how long an investment can be made for and minimum credit ratings each investment must meet. In that sense they meet the definition of a "high credit rating" referred to earlier.

49. However, as with all investments there is an element of risk in their use. In particular funds may not be completely returned if some of the MMF's investments fail. However this risk is reduced when compared to direct investments in the sense that investments are diversified with many different counterparties. The Council could not hope to achieve this level of diversification on its own account.

50. The ongoing continuity of MMF's may also be vulnerable to further falls in market interest rates referred to earlier; each MMF charges a fee and this could mean that interest earned became negative after it's deduction. This has already affected many Euro denominated MMF's in the EuroZone; the end result being that Euro MMF's have ceased to operate normally, although no investor lost money as a result.

51. In the event of a similar problem in the UK then it would be a matter of moving funds to an alternative class of investment such as with the UK Government.

52. Overall, it is proposed to continue the use of MMF's where they hold the highest "AAA" rating.

53. The assessment of what is a "high credit rating" for banks or building societies is outlined below.

The Credit Management Strategy for 2013/14

54. The 2012/13 treasury strategy is published on the Council's internet site at the following location.

http://moderngov.staffordshire.gov.uk/documents/s23741/Treasury%20Management%20report.pdf

55. This sets out the system for determining the lending list including information provided by Sector, the Council's current treasury consultant. Because of the potential appointment of a new consultant referred to earlier it is proposed to freeze the Lending List at 31 March 2013 and maintain this into 2013/14. It is proposed that any changes will be made by the Treasury Management Panel chaired by the Director of Finance and Resources. Following the conclusion of the appointment process, should it be judged necessary, then a follow up report will be made to the Cabinet to provide an update on any significant advice received from the incumbent consultant about any significant action to be taken. This proposal is considered workable as the Council currently has a relatively low risk strategy with few banks on its List.

56. During the potential changeover there will be no gap in information provision as a result of the process and advice will be taken from a new consultant if appointed.

57. Those banks with a "negative watch" warning (where the rating may be downgraded soon) or banks suffering a downgrade will still be subject to review by the Treasury Management Panel:
    - the treasury team will freeze all new investments to a counterparty once a warning is issued;
    - where call accounts are held withdrawals may be made if needed but funds will not be replenished pending review by the treasury panel;
    - funds will not be redeemed by the treasury team as a matter of course until the treasury management panel have considered the matter.

58. Wider information and intelligence collected by treasury officers will also be used in the assessment by the panel, for example news items and general market information. This information alone may also trigger a panel review.

59. After considering all of the information available the panel will make a decision on whether to adjust the Council's investment risk profile.

60. The end result may involve moving investments to lower risk counterparties or instruments, for example away from banks and towards MMF's or the UK Government.

61. One exception to this system has been made for the Co-operative Bank who act as the Council's bankers. As all transactions with this bank are mainly overnight or over the weekend, the risks of continuing to use the bank do not outweigh the added cost and inconvenience of using other banks each day. A duration limit of 1 week is proposed to allow investments over the holiday period.

62. As required by Regulations an overview of the monitoring process is outlined below:
    - Rating changes will be communicated to Treasury Officers from the successful treasury consultant and will be acted upon when received;
    - A regular review of credit ratings will be provided by the consultant.

63. In summary, therefore, the proposed strategy would be based on the following definition of a "high credit rating":
    - diversified sterling Money Market Funds with a "AAA" rating by one of the three major credit rating organisations;
    - a bank that is included on the Council's lending list at 31 March 2013 as adjusted by the treasury panel.

Investment Duration

64. In considering the financial instruments that meet the definition of a specified investment, there is the scope to consider the length of the investment period.

65. One of the important lessons of the banking crisis has been to exercise caution in the duration of investments; this recognises that the factors that led to the investment being considered sound can change adversely over time. As such it is judged reasonable to limit fixed term deposits with banks or building societies to a maximum duration of one year.

66. In summary this means that the Council's specified investments include:
    - UK Government – 6 months for DMADF (the maximum permitted) and 12 months for Treasury-bills;
    - Local Authorities / Parish Councils – 12 months;
    - "AAA" rated Money Market Funds (no duration – same day liquidity);
    - Partly Nationalised banks – 12 months maximum;
    - Other banks and building societies – a maximum of 3 months;
    - Co-op Bank – 1 week.

67. The borrowing strategy referred to later in this report recommends continuing to use cash; practically this means that investment duration will be by necessity relatively short, although it is important to have the option to make longer investments if this is judged worthwhile. Keeping investments shorter-term is also consistent with a view that interest rates are generally expected to rise over the long-term. A liquid investment portfolio also allows funds to be redeemed quickly where concerns arise about any counterparty.

68. Taking everything together, **Appendix 2** details the specified investment instruments identified for use.

69. The use of specified investments is delegated to the Director of Finance and Resources for practical reasons in the day to day management of treasury transactions.

Investment Diversification

70. Having determined the list of highly rated counterparties and the duration of investments the last piece of the process is to overlay the methodology for

ensuring diversification. This is achieved by setting a maximum amount to be invested with each counterparty to limit risk and spread investments or a minimum number of counterparties to invest with.

71. Ensuring diversification has never been more important than now; it protects the security of the investments by limiting the Council's loss in the event of a counterparty default. However, diversification does not protect the Council from a systematic failure of the banking sector.

72. Investment balances rise and fall during the year; so diversification needs to take account of these high and low points with a "cap" on the maximum invested with a counterparty and a "floor".

73. The cap, or absolute maximum to be invested with counterparties is proposed as follows:
    - UK Government – no limit
    - Local Authorities / Parish Councils – no limit
    - "AAA" rated Money Market Funds - £30m
    - Banks or Building Societies - £25m
    - Co-operative Bank - £10m

74. A "floor" is needed to ensure diversification when cash balances are low; this requires a different mechanism. It is proposed to use a minimum of 4 different counterparties / investment instruments plus any residual balance invested with the Co-operative Bank.

75. Any policy on diversification must be adaptable in the face of changing circumstances. For example this policy may well be overtaken by economic or credit events, where there simply are not enough investments considered safe to ensure a spread across 4 counterparties / investments. In this instance then investments will be simply spread across the safe investments available.

76. It is proposed that both the application and amendment of this policy are delegated to the Treasury Management Panel chaired by the Director of Finance and Resources with the results reported in the regular Treasury Management reports.

b) <u>Non-specified investments</u>

77. The Government regulations define non-specified investments as all other types of investment that do not meet the definition of specified investments. In contrast to specified investments, Government guidance indicates that the AIS should:
    - set out procedures for determining which categories of non-specified investments should be prudently used;
    - identify such investments;
    - state an upper limit for each category of non specified investment; and
    - state upper limits for the total amount to be held in such investments.

78. As referred to already, it is not proposed to use fixed term deposits for longer than a year. In order to provide the capacity to make longer term investments, non-specified investments include instruments that would allow this. Whilst it is

unlikely that these will be used it is important to create a strategy in a way that allows future flexibility.

79. None of the non-specified investments proposed present additional security risk to those investments within specified investments. Each of these are explained in-turn below:
    - Certificates of Deposit – identical to a fixed term deposit excepting the fact that they can be sold if needs be. This additional liquidity makes these investments more attractive to the Council;
    - Government gilts / bonds – "AAA" rated and equivalent to the DMADF account and T-bills, simply a longer term investment with the UK Government that can also be sold.
    - Multilateral development bank bonds – "AAA" rated, these are institutions created and backed by a group of countries which can be sold as needed.

80. Each of these investments is subject to market risk; this is the risk that the value of the investment can go down as well as up. In order to avoid this risk the inclusion of these investment instruments is proposed only on the basis that if purchased they would be held until maturity under normal circumstances. At maturity the investment and expected interest would be paid in full.

81. In the case of Certificates of Deposit then these would only be sold early on the basis that there were concerns over the borrower defaulting. This liquidity is one of the attractions of this type of investment.

82. The addition of these investments allows the Council to manage interest rate risk more effectively and in that sense reduces this risk. Investments that involve this judgement will only be taken by a decision of the Treasury Management Panel chaired by the Director of Finance and Resources.

83. **Appendix 5** lists all of the specified investments currently being used by the in-house team.

84. Although guidance sets out security and liquidity as being the main risks, they are not the only risks in investing. **Appendix 4** sets out a high-level risk assessment of six of the key risks, these are summarised below:
    - Security — Low
    - Liquidity — Low
    - Interest rate — Low to Medium
    - Market — Low
    - Refinancing — Low to Medium
    - Regulatory and Legal — Low

85. The proposed strategy has been assessed against these risks and the judgement is that the most important risks have been reduced as far as possible, this is not to say that all risk has been eliminated which is not possible in treasury terms.

Appendix 2

Cabinet – 16 January 2013

Specified Investments

Investment	**Credit Rating Criteria Adopted**	**Current Terms of Use**
Term deposits with the UK government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	Defined by Regulations	In use
Term deposits with the **Debt Management Account Deposit Facility*** (DMADF) (the Debt Management Office of the UK Government) * available for investments up to 6 months	Defined by Regulations	In use
Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No 534)	"AAA" (the highest credit quality)	In use
Term deposits and **Callable deposits** with credit-rated deposit takers (banks and building societies) with maturities up to 1 year	List on 31 March 2013	In use
Forward deals with credit-rated deposit takers (banks and building societies) up to 1 year (i.e. negotiated deal period plus period of deposit)	List on 31 March 2013	In use

Appendix 3

Cabinet – 16 January 2013

Non Specified Investments

Investment	Circumstances of Use	Credit Rating Criteria	Limit	Current Terms of Use
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	Not in Use	N/A	Nil	Not in Use
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	Not in Use	N/A	Nil	Not in Use
Forward deposits with credit rated banks and building societies for periods greater than 1 year (i.e. negotiated deal period plus period of deposit)	Not in Use	N/A	Nil	Not in Use
Certificates of deposit with credit rated deposit takers (banks and building societies) with maturities up to 5 years	Subject to agreement by the Treasury Management Panel	List on 31 March 2013	£25m *	Subject to agreement by the Treasury Management Panel
UK government gilts with maturities up to 5 years	Subject to agreement by the Treasury Management Panel	"AAA" UK Sovereign rating	£25m *	Subject to agreement by the Treasury Management Panel
Bonds issued by multilateral development banks with maturities up to 5 years	Subject to agreement by the Treasury Management Panel	"AAA"	£25m *	Subject to agreement by the Treasury Management Panel

** The limit is £25m in total for all three types of investment used in-house.*

Appendix 5

Cabinet - 16 January 2013

Approved Lending List (shown at December 2012)

Investments will be made with at least 4 different counterparties + Co-operative Bank

UK GOVERNMENT DEPOSITS with the Debt Management Office
with NO MAXIMUM INVESTMENT LIMIT and a MAXIMUM INVESTMENT PERIOD of 6 MONTHS

Debt Management Account Deposit Facility (DMADF)

Purchase and Sale of UK Government Treasury Bills through the Debt Management Office with NO MAXIMUM INVESTMENT LIMIT and a MAXIMUM INVESTMENT PERIOD of 12 MONTHS

Treasury Bills (UK Government)

LOCAL AUTHORITY and PARISH COUNCIL INVESTMENTS with NO MAXIMUM INVESTMENT LIMIT and a MAXIMUM INVESTMENT PERIOD of 12 MONTHS

Non charge-capped UK Local Authorities / Parish Council's

Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No 534)
with a MAXIMUM INVESTMENT LIMIT of £30m (Same Day Instant Access)

Barclays Global Investors (BGI) MMF
Ignis MMF
Insight MMF
Prime Rate MMF (£20m limit)

INSTITUTIONS with a MAXIMUM INVESTMENT LIMIT of £25m & a MAXIMUM INVESTMENT PERIOD as shown

	Current Use
Barclays Bank plc	Not in Use
HSBC plc	Not in Use
Nationwide Building Society	3 months
Lloyds Banking Group (includes Bank of Scotland)	Call Account
Royal Bank of Scotland Group (includes NatWest)	Up to 95 day notice

INSTITUTIONS with a MAXIMUM INVESTMENT LIMIT of £10m and a MAXIMUM INVESTMENT PERIOD OF 1 WEEK

Co-operative Bank plc

Minimum Revenue Provision (MRP) Strategy 2013/14

125. The Council are also legally obliged to have regard to Government guidance issued in February 2008 concerning the Minimum Revenue Provision (MRP) policy. MRP is where the Council must make an annual revenue provision for the repayment of debt (also referred to as the Capital Financing Requirement or CFR). The MRP policy must be submitted to the full Council for approval prior to the start of the financial year to which the provision will relate. The policy for 2013/14 is summarised below and shown in full at **Appendix 9**.

126. Following guidance issued in 2007/08 regarding the Minimum Revenue Provision (MRP), it is proposed to continue the agreed policy as follows:
   - The major proportion of the MRP for 2013/14 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with the recommendations and intent of Option 1 of the Guidance;

   - Further amounts of new capital expenditure may continue to be charged at the rate of 4%, and added to the above mentioned base Capital Financing Requirement (CFR) amount, up to an amount equivalent to the Council's annual Supported Capital Expenditure (Revenue) allocation;

   - Certain expenditures reflected within the debt liability at 31 March 2013 will under delegated powers be subject to MRP under Option 3.

127. In practical terms, this approach means that capital expenditure funded from supported borrowing (that is, supported by Government Grant) will be repaid at 4%. However, expenditure funded from unsupported borrowing will be repaid at a rate which matches the useful lives of those assets funded. This will result in a saving for the authority as the debt can be spread over a longer period of time, for example 60 years where a building has been funded from unsupported borrowing (that is, supported by the Council). The MRP Policy statement for 2013/14 is shown at **Appendix 9**.

Appendix 9

Minimum Revenue Provision (MRP) Policy Statement

Introduction

Capital expenditure is expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life.

The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP), which was previously determined under Regulation, and will in future be determined under Guidance.

The Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The guidance offers four main options under which MRP could be made (for information these are detailed over the page), with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

MRP Policy Statement 2013/14

The Council implemented the new MRP guidance in 2009/10, and will assess their MRP for 2013/14 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The major proportion of the MRP for 2013/14 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with the recommendations and intent of Option 1 of the Guidance.

Further amounts of new capital expenditure may continue to be charged at the rate of 4%, and added to the above mentioned base Capital Financing Requirement (CFR) amount, up to an amount equivalent to the Council's annual Supported Capital Expenditure (Revenue) allocation.

Certain expenditures reflected within the debt liability at 31st March 2013 will under delegated powers be subject to MRP under Option 3.

Estimated life periods will be determined under delegated powers. 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.

Asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments,
b. annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.