Treasury Management Strategy 2022/23

Background

The Local Government Act 2003 (the Act) and supporting Regulations requires the Commissioner to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Commissioner's capital investment plans are affordable, prudent and sustainable. Treasury management is defined in the CIPFA Codes as " "The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks."

The CIPFA Code includes the recommendation that authorities adopt the following:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Commissioner's treasury management activities, the current version is shown at Appendix 1.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Commissioner will seek to achieve those policies and objectives. This is delegated to the Chief Finance Officer.

3. The production of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Commissioner of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

The PCC has adopted the Code and also adheres to investment guidance issued by the then Ministry of Housing, Communities and Local Government (MHCLG). In 2018 the MHCLG issued new guidance which widens the definition of investments. For treasury management investments the guidance requires authorities to prioritise security, liquidity and yield in that order of importance. This is consistent with previous guidance. In addition, the guidance definition includes financial and non-financial assets which are held primarily or partially to generate a profit.

Where an authority holds non treasury investments it is required to produce a separate investment strategy. Although the definition is wide ranging covering loans to third parties, the holding of property to make a profit it is not considered that the PCC hold any such assets and it does not propose to engage in any such investments in 2022/23.

This strategy supports the Commissioner's medium term financial strategy along with the capital strategy and the reserves strategy.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

Reporting requirements

The following reporting arrangements will be adopted in accordance with the requirements of the revised Code: -

Area of Responsibility	Committee/ Officer	Frequency
Treasury Management Policy Statement	Police and Crime Commissioner	Annually before the start of the financial year.
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Police and Crime Commissioner	Annually before the start of the financial year
Mid-year review, scrutiny of performance	Police and Crime Commissioner	Mid-year – 6 months
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Police and Crime Commissioner	As required
Annual Treasury Management Outturn Report	Police and Crime Commissioner	Annually by 30 September
Treasury Management Monitoring Reports	Chief Finance Officer	Quarterly
Treasury Management Practices	Chief Finance Officer	Annually

Treasury Management Strategy for 2022/23

In setting the Treasury Management Strategy, the following factors have been taken into account; economic forecasts, the level of the approved Capital Programme and the current structure of the Commissioner's debt portfolio. It covers the following aspects of the Treasury Management function: -

- Prudential Indicators which will provide a controlling framework for treasury management activities.
- Long-term debt outstanding;
- Prospects for interest rates;
- The Borrowing Strategy;
- The Investment Strategy;
- Policy on borrowing in advance of need.

Economic Context

Economic background:

The treasury management activity will be influenced by the forecast of interest rates for the year. In December 2021 the Bank of England increased the Bank Rate by 0.15% to 0.25%. This increase was the first increase in over 3 years and was made in response to inflationary pressures. This was followed by a further two 0.25% increases at the February and March meetings to take the rate to 0.75%. The December inflation rate, as measured by Consumer Prices Index (CPI) was 5.4% which was the highest for a decade. The January rate increased to 5.5% and whereas in December the MPC was expecting inflation to peak at 7.25% it is now expecting to rise to 8% in April and remain at that level for a couple of months. A key reason for the further increase is the impact of the Russian invasion of Ukraine which has led to further increases in energy and some other commodity prices and will lead to further global supply chain issues.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter. The first estimates of the fourth quarter show a similar picture with moderate growth with the headline GDP increasing by 1.0% in the fourth quarter of 2021.The MPC in December was forecasting a recovery in activity throughout February and March leading to output returning to pre-pandemic levels by the start of Q2 2022. However, the invasion of Ukraine has led to a significant increase in the global economic position. Domestically the reduction in real household disposable income will have a negative impact on growth.

A similar picture has occurred in many different areas of the world including the USA with their inflation rate hitting a 40 year high of 7.9% in February. In March the Federal Reserve increased the interest rates for the first time since 2018. It is increasing its benchmark rate by 0.25% and signalled they are in favour of further increases in 2022.

Arlingclose Forecast

Given the latest position the Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will rise to 1.00% in the second quarter of 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates. There is an expected further rise to 1.25% in the third quarter of 2022 and then the forecast is for the Bank Rate to then remain constant until the end of the forecasting period (March 2025)

Despite the forecasted increase in the Bank Rate the risks to the forecast remain weighted to the upside for 2022, becoming more balanced over time. The Arlingclose central forecast remains below the forecasts market forward curve which continue to price in multiple increases.

Gilt yields have increased since mid-December are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 1.40%, 1.60%, and 1.85% respectively. The risks to Gilt yields will remain broadly flat from current levels. There is potential downward pressure as Bank Rate expectations ease from current levels. However, the run off of the Bank's corporate bond portfolio, and later the gilt portfolio, as it reverses Quantitative Easing, could impact some upward pressure on yields.

The latest forecast is shown in the table below:

	Bank Rate %	3-month money market rate%	5-year gilt yield %	10-year gilt yield %	20-year gilt yield %	50-year gilt yield %
Mar-22	0.75	0.90	1.45	1.70	1.97	1.68
Jun-22	1.00	1.20	1.50	1.75	2.00	1.75
Sep-22	1.25	1.40	1.55	1.80	2.00	1.75
Dec-22	1.25	1.30	1.60	1.80	1.95	1.70
Mar-23	1.25	1.30	1.55	1.75	1.90	1.65
Jun-23	1.25	1.30	1.50	1.70	1.85	1.60
Sep-23	1.25	1.30	1.45	1.65	1.80	1.55
Dec-23	1.25	1.30	1.40	1.60	1.80	1.55
Mar-24	1.25	1.30	1.35	1.55	1.80	1.55
Jun-24	1.25	1.30	1.35	1.55	1.80	1.55
Sep-24	1.25	1.30	1.35	1.55	1.80	1.55
Dec-24	1.25	1.30	1.35	1.55	1.80	1.55
Mar-25	1.25	1.30	1.35	1.55	1.80	1.55

In the above table 'bank rate' refers to the policy rate of the Bank of England. PWLB borrowing rates are based on 'Gilt Yield' and so this is a forecast of long-term interest rates. The Authority can borrow at 80 basis points above the gilt yield, so for example a fixed interest rate to borrow PWLB money for 10 years would be 2.30%, 1.70% plus 0.80%.

Current Treasury Portfolio Position

The current value of the Commissioner's Treasury Portfolio at 31.12.2021 is:	**Principal**
DEBT	**£m**
Fixed rate loans from PWLB	42.104
Fixed term loans from other local authorities	35.000
Total debt	**77.104**
INVESTMENTS	
Variable rate investments in the County Council General County Fund	21.042
Total investments	**21.042**
Net (debt)/Investments	**(56.062)**

The level of investments represents the Commissioner's cumulative surplus on the General Fund, the balances on other cash-backed earmarked reserves and a cash-flow balance generated by a surplus of creditors over debtors and by grant receipts in advance of payments.

Borrowing Requirement

In the medium term the PCC borrows for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement

(CFR), while usable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which currently exists. This gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing, so the table gives an indication of the minimum borrowing requirement through this method.

The CFR has been calculated adopting a policy that the Commissioner has set aside revenue reserves and contributions to contribute to the delivery of the investment included in the Capital Programme. This resource will be used, in the first instance, to provide finance for short life assets such as IT systems and equipment in order to avoid the use of borrowing where possible for this type of asset. The Commissioner's strategy increases the revenue budget each year in respect of the contribution made to finance the capital programme. This approach reflects the reduction in earmarked reserves available for funding the capital programme and represents a prudent strategy for the funding of short life assets. This approach is taken because the annual cost of borrowing over shorter terms is more expensive than for longer periods due to the higher MRP repayment and the use of revenue contributions and reserves to minimise such shorter life borrowing represents better value for money.

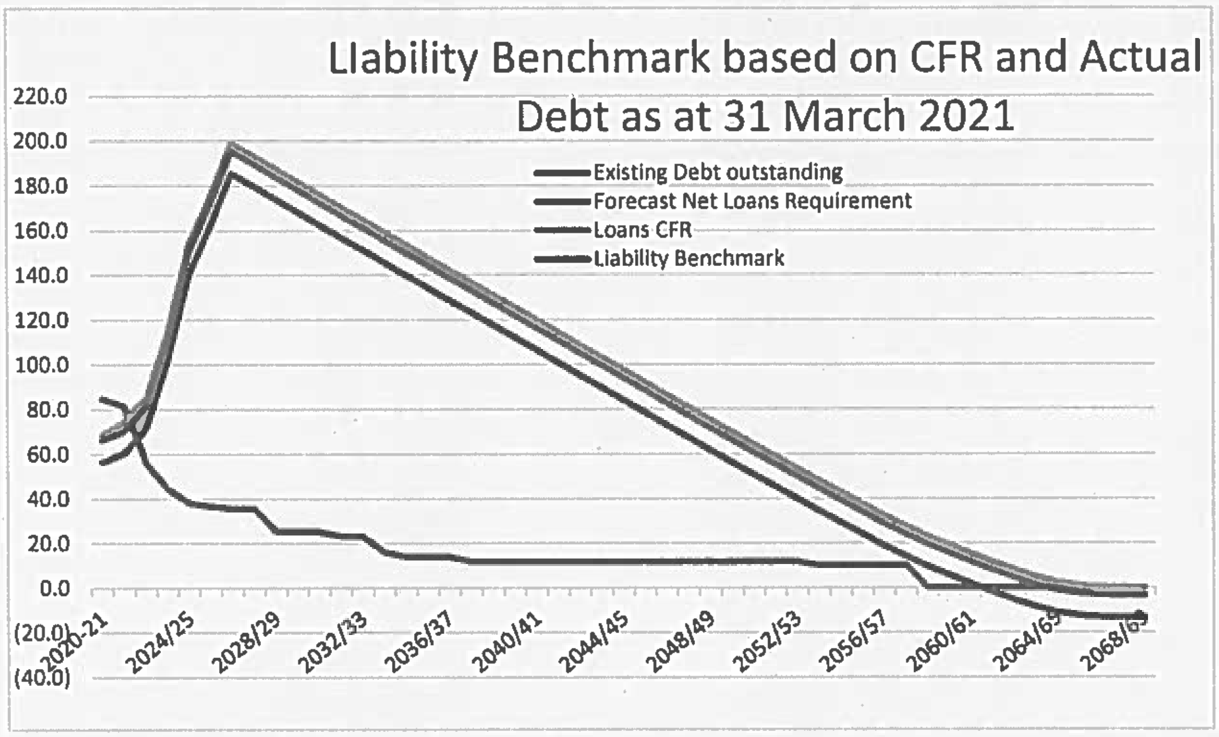
The CFR forecast includes the impact of the latest forecast of the funding of the Capital Programme.

	31/3/2022	31/3/2023	31/3/2024	31/3/2025
	£m	£m	£m	£m
Capital Financing Requirement	74.336	85.652	114.820	153.540
Less external borrowing	81.379	55.500	44.325	37.850
Borrowing requirement	-7.043	30.152	70.495	115.69
Reserves and working capital	-14.169	-13.919	-13.769	-13.519
Borrowing/(investment) need	-21.212	16.233	56.726	102.171

The borrowing at 31 March 2022 is above the CFR as during the year there was slippage on the capital programme in year which has resulted in a reduction in the expected CFR. This is reflected in higher borrowing requirements in subsequent years and therefore the borrowing is within the Prudential Code requirements.

Liability benchmark

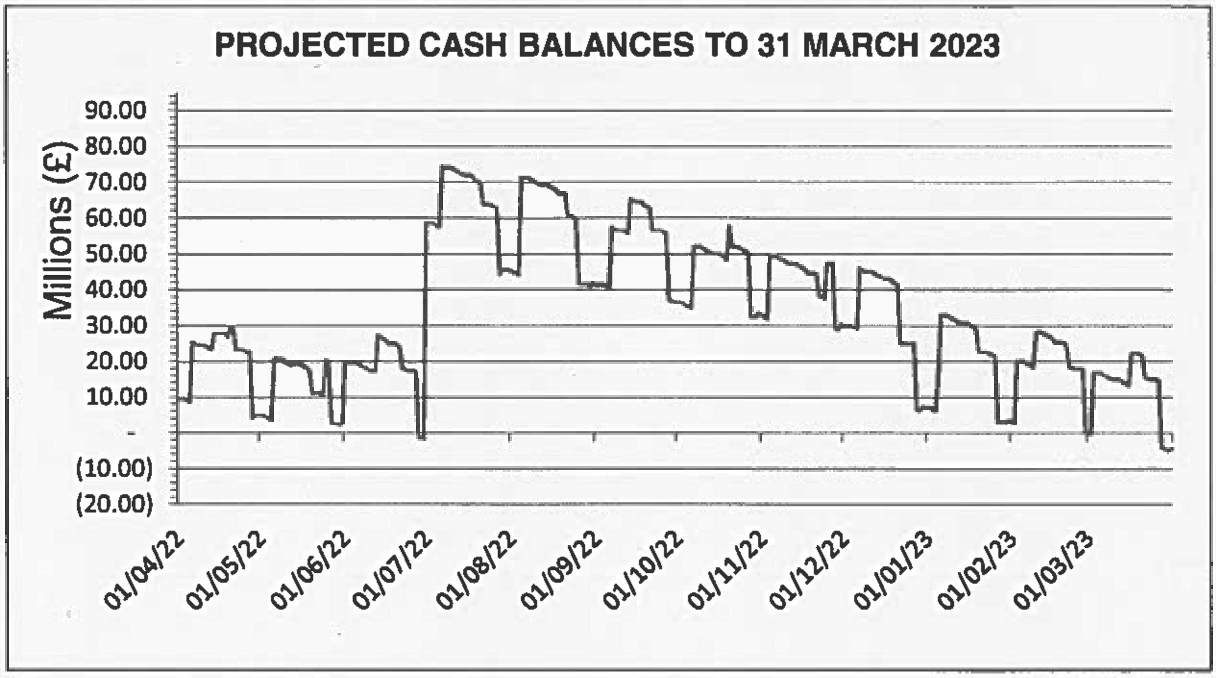
To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk. The liability benchmarks are shown in the graph below:



The liability benchmark graph above shows that there is an actual need to undertake borrowing in 2022/23 and beyond until at least 2060/61 so consideration will be given to undertake some long-term borrowing.

Borrowing Strategy

The data shown above demonstrates that the Commissioner does have a significant borrowing requirement both in the short and long term. This requirement could be met by taking a series of long-term loans. However, this may be too simplistic an approach as there will be some internal resources that could be used to replace borrowing especially as the receipt of income is not even during the year. The diagram below shows the cashflow forecasts for 2022/23 before any further borrowing decisions are taken:



The graph illustrates there are times when cash flow is negative and therefore short-term loans could be used to meet the borrowing need in the year. However, as capital expenditure is incurred over the next few years this will becoming increasingly difficult.

It is therefore anticipated that the borrowing strategy will be to meet requirements by a mixture of long and short-term borrowing. Short term borrowing is generally cheaper in year but there is the risk that future replacement loans will be more expensive. Therefore, consideration will be given to both debt maturity profile and the latest interest rate forecasts to assess whether long or short-term borrowing is taken.

The table below shows the maturity profile of the existing debt of £81.379m in 2022/23

Years to maturity from 1.4.22	Debt £m	%
Under 1 Year	25.729	31.7
1 -2 Years	11.100	13.6
2-5 years	20.100	10.7
5-10 years	12.375	14.7
Over 10 years	23.025	29.4

This illustrates that the portfolio does have a reasonable proportion of long-term debt to mitigate refinancing risk while taking some of the benefits of short-term borrowing.

The interest rates and Gilt rates, which determine PWLB loan rates, forecasts shown earlier in the report show rates are expected to remain at low levels albeit rising slowly. If there was an expectation that long term rates were due to increase sharply then it is likely that more long-term loans would be taken. The situation will be constantly reviewed by County Councils Treasury Management Team and the Chief Finance Officer.

In undertaking borrowing the approved sources of long-term and short-term borrowing currently are:

- Public Works Loan Board
- UK local authorities
- any institution approved for investments
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds

It is proposed that this will continue.

In the past the Commissioner has raised all long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

Debt Restructuring

The Chief Finance Officer, together with the County Council's treasury management team reviews options for debt restructuring on a regular basis. A recent review found that given the relatively favourable interest rates at which these have been taken out (below 5%) and the penalties associated with any early repayment, restructure is not considered financially viable at the present time. A better option for the immediate future is to continue to utilise reserves to minimise the future borrowing requirement rather than repay debt.

Frequent discussions will continue to take place between the Chief Finance Officer and the Treasury Management Team to monitor this situation and any future decisions on debt financing will be put through the same rigorous cost and prudence analysis that external borrowing has traditionally gone through and will be reported to the Commissioner in due course.

Policy on Borrowing in Advance of Need

The Commissioner will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. However advance borrowing may be taken if it is considered that current rates are more favourable than future rates and that this advantage outweighs the cost of carrying advance borrowing. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Commissioner can ensure the security of such funds and relationships.

In determining whether borrowing will be undertaken in advance of need the Commissioner will:

- Ensure that there is a clear link between the capital programme and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.

- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

Treasury Management Investment Strategy

The Commissioner will have regard to the MHCLG's Guidance on Local Government Investments and the revised CIPFA Treasury Management in Public Services Code of Practice and Guidance Notes ("the CIPFA TM Code"). The Commissioner's investment priorities are: -

(a) The security of capital and
(b) The liquidity of its investments.

The Commissioner will also aim to achieve the optimum return on his investments commensurate with proper levels of security and liquidity. The risk appetite of the Commissioner is low in order to give priority to security of its investments.

Current Investments

At 31 December 2021 the Commissioner held £21.042m invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22 the Commissioner's investment balance has averaged at £37.447m, with the highest balance being £87.157m. The Commissioner will only use very high-quality counterparties for investments. The Commissioner's investments are principally held with LCC with the other investments being fixed term deposits with other local authorities. At 31 December the £21.042m was held solely at LCC with a local authority investment of £5.350m maturing in year. These balances are forecast to reduce to around £12m by the end of March 2022.

The Commissioner currently has access to a call (instant access) account with LCC. This currently pays bank rate, (currently 0.50%). Each working day the balance on the Commissioner's Current Account is invested in this to ensure that the interest received on surplus balances is maximised.

The interest earned during the year as of 31 December 2021 is £0.037m at an annualised rate of 0.13%. This compares favourably with the benchmark 7-day LIBID which averages a negative yield of 0.07% over the same period.

<u>Investment Counterparties</u>

With the security and liquidity being key drivers of the investment strategy, it is expected that the LCC call account will remain a key part of the investments. However, the Commissioner can invest with other local authorities. Arlingclose, the County Council's Treasury Management advisor, state they are "comfortable with clients making loans to UK local authorities for periods up to two years, subject to this meeting their approved strategy. For periods longer than two years we recommend that additional due diligence is undertaken prior to a loan being made." On this basis it is proposed that the investments to local authorities are limited as follows:

	Maximum individual investment (£m)	Maximum total investment (£m)	Maximum period
Up to 2 years	10	250	2 years
Over 2 years	10	50	10 years

The investment in LCC as part of the call account arrangement is excluded from the above limits. The balance on this account is dependent upon short term cash flows and therefore does not have a limit.

The Commissioner may invest surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown.

Counterparty		**Cash limit**	**Time limit †**
Secured Bank Deposits, Reverse repurchase Agreements	AAA	£5m each	5 years*
	AA+		3 years*
	AA		2 years*
	AA-		2 years*
Call Accounts with banks and other organisations with minimum AA- credit rating		£10m	next day
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		£10m	10 years
Call Account with Lancashire County Council		unlimited	Next day
Secured Bond Funds AA rating and WAL not more than 3 years		£5m each	n/a
Secured Bond Funds AAA rated and WAL not more than 5 years		£5m each	n/a

** but no longer than 2 years in fixed-term deposits and other illiquid instruments*

*** but no longer than 5 years in fixed-term deposits and other illiquid instruments*

Whilst the investment strategy allows flexibility with investments any decision as to whether to utilise this facility will be made based on an assessment of risk and reward undertaken jointly between the Chief Finance Officer and LCC Treasury Management Team, and consideration of this forms part of the on-going meetings that take place throughout the year.

The Commissioner may lend or invest money using any of the following instruments: -

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits where the Commissioner may demand repayment at any time (with or without notice),
- certificates of deposit,
- bonds, notes, bills, commercial paper, and other marketable instruments, and
- shares in bond funds

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as SONIA, subject to the limits on interest rate exposures below.

On behalf of the Commissioner the county council's treasury management section prepares daily cash flow forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Commissioner's medium term financial plan and cash flow forecast.

The performance target on investments will remain as being above the average rate for 7-day notice money.

Revenue Budget

Based on the Strategy outlined above then the proposed budget for capital financing is:

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
MRP	1.600	2.500	3.300	4.300
Interest payable	2.153	2.224	2.268	2.268
Interest receivable	-0.200	-0.200	-0.200	-0.200
Net budget	3.553	4.524	5.368	6.368

Prudential Indicators for 2022/23 to 2024/25 in respect of the Police and Crime Commissioner's Treasury Management Activities.

In accordance with its statutory duty and with the requirements of the Prudential Code for Capital Finance and the CIPFA Code for Treasury Management, every local authority produces each year a set of prudential indicators which regulate and control its treasury management activities.

The following table sets out the debt and investment-related indicators which provide the framework for the Commissioner's proposed borrowing and lending activities over the coming three years. These indicators will also be approved by members as part of the Capital Programme approval process along with other capital expenditure-related indicators but need to be reaffirmed and approved as part of this Treasury Management Strategy.

Prudential Indicators	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£000	**£000**	**£000**	**£000**
1. Adoption of the Revised CIPFA Code of Practice on Treasury Management	Adopted for all years			
2. Estimated capital expenditure	25,000	47,388	57,942	40,438
3. Authorised limit for external debt - A prudent estimate of external debt, which includes sufficient headroom for unusual cash movements.				
Borrowing	134,000	179,000	234,000	269,000
Other long-term liabilities	5,000	5,000	5,000	5,000
TOTAL	139,000	184,000	239,000	274,000
4. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising because of the Commissioner's current plans.				
Borrowing	105,000	150,000	205,000	240,000
Other long-term liabilities	500	500	500	500
TOTAL	105,500	150,500	205,500	240,500
5. Gross Debt / Capital Financing Requirement Indicator	**2021/22 £M**	**2022/23 £M**	**2023/24 £M**	**2024/25 £M**
Capital Financing Requirement	74.336	97.750	142.368	196.355
Estimated Gross debt	81.379	96.800	140.900	229.100
Debt to CFR(%)	109	99	99	99
The debt exceeds the CFR at 31.3.22 as some borrowing for future years has been undertaken. This is in line with the Code				
6. Upper limit for fixed interest rate exposure				
Upper limit of borrowing at fixed rates	100%	100%	100%	100%
Upper limit of investments at fixed rates	100%	100%	100%	100%
7. Impact 1% rate rise limit	£10M	£10M	£10M	£10M
8. Upper limit for total principal sums invested for over 364 days	**£30M**	**£30M**	**£30M**	**£30M**
9. Maturity structure of Debt	**Upper Limit %**		**Lower Limit %**	
Under 12 months	90		-	
12 months and within 24 months	80		-	
24 months and within 5 years	85		-	
5 years and within 10 years	85		-	
10 years and above	95		5	
10. Ratio of financing costs to revenue stream (%)	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	1.50	**2.03**	**2.35**	**2.32**

Treasury Management Policy Statement

The Police and Crime Commissioner's financial regulations require him to create and maintain a treasury management policy statement, stating the policies, objectives, and approach to risk management of his treasury activities, as a cornerstone for effective treasury management.

Definition

The Police and Crime Commissioner defines his treasury management activities as: the management of the Commissioner's investments and cash flows, his banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Risk management

The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of his treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered to manage these risks.

Value for money

The Commissioner acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. He is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

The Commissioner aims to fund its capital expenditure in a cost-effective manner. This will involve using short term and variable rate loans when these are seen as being the most beneficial strategy. However, consideration will be given to the long-term funding needs and the stability to budgets that fixed interest loans provides. The Commissioner will also constantly evaluate debt restructuring opportunities of the existing portfolio.

The Commissioner will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003* and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. He will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment policy

The Commissioner's primary objectives for the investment of his surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of services is an important, but secondary, objective.

The Commissioner will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Minimum Revenue Provision policy

To the extent that the Commissioner needs to borrow to fund the capital programme this will be provided for through the revenue account in future years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

The Local Government Act 2003 requires the Commissioner to have regard to guidance issued by the relevant government department, namely the Department of Levelling Up, Housing and Communities or its predecessors. The broad aim of the Guidance 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.

Therefore, for all capital expenditure funded through supported borrowing MRP will be charged on a straight-line basis for a period of 50 years, backdated to 2007/8. This policy was introduced in 2017/18 as prior to that the MRP charge was on a reducing balance basis. This has led to an overcharge being made to the revenue account on expenditure funded from supported borrowing. It was agreed that the MRP on supported borrowing from 2017/18 is set at nil until the overpayment has been applied. Therefore for 2022/23 the MRP for supported borrowing will be nil.

For capital expenditure financed by unsupported borrowing MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. Estimated life periods will be determined under delegated powers. However, if any asset is considered to have an asset life in excess of 50 years this will be confirmed by an appropriate professional in line with the then Ministry Housing Communities and Local Government guidance.

As some types of capital expenditure incurred by the PCC are not capable of being related to an individual asset, 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.