Section A
For Publication

THE OFFICE OF POLICE AND CRIME COMMISSIONER FOR DERBYSHIRE

DECISION RECORD

Request for PCC Decision	Received in OPCC Date: 20 January 2015	OPCC Ref: 08/16

Title: APPROVE PRUDENTIAL INDICATORS, MINIMUM REVENUE PROVISION MINIMUM TREASURY MANAGEMENT AND INVESTMENT STRATEGY

Executive Summary:

The prudential indicators considers the affordability and the impact of capital expenditure decisions, they set out the capital framework and the capital activities as shown at Annex A.

The Treasury Management Strategy Statement sets out how the organisation intends to finance its capital programme set out at Annex B.

Decision

Resolved that

i. The Prudential Indicators and Limits for 2016/17 to 2018/19 contained within Appendix A of the report were approved.
ii. The Minimum Revenue Provision (MRP) Statement contained within Appendix A setting out the PCC's policy on MRP was approved.
iii. The Treasury Management Strategy 2016/17 to 2018/19 and the Treasury Prudential Indicators contained within Appendix B were approved.
iv. That the Authorised Limit Prudential Indicator was approved.
v. The Investment Strategy 2016/17 contained in the Treasury Management Strategy (Appendix B), the counterparties in Appendix B2 and detailed criteria included in Appendix B3 was approved.
vi. The adoption of the CIPFA Treasury Management Code of Practice was reaffirmed.

Declaration

I confirm that I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct for the Police and Crime Commissioner for Derbyshire. Any such interests

are recorded below.

(Recorded interests: None)

The above request has my approval.

Signature	**Date 26 January 2016**

PUBLICATION SCHEME CONSIDERATIONS

Is the related Section B report to be published Yes

If no, please indicate relevant exemption

Is the publication of this approval to be deferred No

If Yes, provide reasons below

Date to be deferred to –

NB Statutory Instrument 2011/3050 (as amended by SI 2012/2479) states that: *all decisions made by a PCC are in the types of information that must "be published as soon as practicable after it becomes available to the elected local policing body".*

OFFICER APPROVAL

Chief Executive or Nominee:

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report.

I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner

Name Helen Boffy Date 26 January 2016

Section B
Part I -
For Publication

STRATEGIC GOVERNANCE BOARD

26 JANUARY 2016

JOINT REPORT OF CHIEF CONSTABLE AND THE TREASURER TO THE POLICE AND CRIME COMMISSIONER

10C: PRUDENTIAL INDICATORS, MINIMUM REVENUE PROVISION, TREASURY MANAGEMENT AND INVESTMENT STRATEGY

1. PURPOSE OF THE REPORT

1.1 To consider and approve the Capital Prudential Indicators for 2016/17 to 2018/19 (incorporating the Minimum Revenue Provision Policy), the Treasury Management Strategy Statement 2016/19 and the Investment Strategy 2016/19.

2. INFORMATION AND ANALYSIS

2.1. As part of the budget setting process, it is a statutory requirement that the Police and Crime Commissioner (PCC) determines the Prudential Indicators and Treasury Management Policies and Procedures.

2.2. The Commissioner fulfils four key legislative requirements when setting prudential indicators and setting out the expected treasury operations:

2.3. The reporting of the prudential indicators considers the affordability and impact of capital expenditure decisions. They set out the organisation’s capital framework and capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities) shown at Appendix A. The treasury management prudential indicators are included as treasury indicators in the CIPFA Treasury Management Code of Practice.

2.4. The Minimum Revenue Provision (MRP) Policy, which sets out how the organisation will pay for capital assets through revenue each year (as required by Regulation under the Local Authorities [Capital Finance and Accounting] [England] Amendment Regulations 2008) shown at Appendix A.

2.5. The Treasury Management Strategy Statement sets out how the organisation intends to finance its capital programme. It shows how the treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the organisation could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the

CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code shown at Appendix B.

2.6. The Investment Strategy which sets out how the organisation will manage its investments and limit its exposure to risk. It sets out the criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Communities and Local Government (CLG) Investment Guidance, and shown at Appendix B.

2.7. Over recent years the Commissioner has used internal resources (e.g. reserves) on a temporary basis to fund capital spending. This has made good sense during a period of very low investment returns, especially when the return on investing money has still been less than borrowing rates. This is called "under borrowing" and now totals some £9.7m.

2.8. This will need to be kept under review as reserves reduce to fund other capital spending and investment, which may create a need to borrow at some point over the period of this strategy. Indeed if the gap between investment returns and borrowing rates narrows, then it may also be advantageous to begin to borrow for the long term. The need to borrow will therefore be kept under review in the light of future capital spending pressures and changes in investment returns and borrowing rates.

3. RECOMMENDATIONS

3.1 That the Prudential Indicators and Limits for 2016/17 to 2018/19 contained within Appendix A of the report are approved.

3.2 That the Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the PCC's policy on MRP be approved.

3.3 That the Treasury Management Strategy 2016/17 to 2018/19 and the Treasury Prudential Indicators contained within Appendix B be approved.

3.4 That the Authorised Limit Prudential Indicator be approved.

3.5 That the Investment Strategy 2016/17 contained in the treasury management strategy (Appendix B), the counterparties in Appendix B2 and detailed criteria included in Appendix B3 be approved.

3.6 That the adoption of the CIPFA Treasury Management Code of Practice be reaffirmed.

4. IMPLICATIONS

	LOW	MEDIUM	HIGH
Crime & Disorder	X		
Environmental	X		
Equality & Diversity	X		
Financial			X
Health & Safety	X		

Human Rights	X		
Legal	X		
Personnel	X		
Risk	X		

Contact details in the event of enquiries	Name: Chief Superintendent Sunita Gamblin External telephone number: 0300 122 4196 Email address: sgbenquiries@derbyshire.pnn.police.uk Name: Helen Boffy External telephone number: 0300 122 6005 Email address: helen.boffy.4808@derbyshire.pnn.police.uk

APPENDIX DETAILS

A The Capital Prudential Indicators 2015/16-2017/18

B Treasury Management Strategy 2015/16-2017/18

B1 Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

B2 Approved Counterparties (based on credit ratings as at January 2015)

B3 Detailed Criteria and Credit Ratings

The Capital Prudential Indicators 2016/17 – 2018/19

Introduction

1. The Local Government Act 2003 requires the Commissioner to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or sets limits upon that activity, and reflects the outcome of the Commissioner's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2018/19. Where appropriate 2014/15 Actual figures are provided for information.
2. Within this overall prudential framework there is an impact on the Commissioner's treasury management activity – as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 2016/17 to 2018/19 is included as Annex B to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

The Commissioner's Capital Expenditure Plans

3. The Commissioner's capital expenditure plans are the key driver of treasury management activity and form the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Commissioner to spend above this level will be considered to be 'unsupported' capital expenditure. This unsupported capital expenditure needs to have regard to:
    - Service objectives (e.g. strategic planning);
    - Stewardship of assets (e.g. asset management planning);
    - Value for money (e.g. option appraisal);
    - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
    - Affordability (e.g. implications for the police precept);
    - Practicality (e.g. the achievability of the forward plan).

4. The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the organisation's own resources.
5. This capital expenditure can be paid for immediately by applying capital resources such as capital receipts, capital grants etc., or by applying revenue resources). However if these resources are insufficient any residual capital expenditure will add to the Commissioner's borrowing need.
6. The availability of capital reserves to help offset the borrowing need will depend to some extent on the amount of reserves required to support

the revenue budget during 2016/17 and beyond. The funding position for police forces announced as part of the 2015 Comprehensive Spending Review was less serious than anticipated, and confirmed by the 2016/17 settlement, means that more reserves may be able to be directed to support the capital spending plans. However careful assessment is required, so as to achieve the most advantageous balance between the use of reserves and borrowing. Equally any additional capital projects would also impact on this indicator.

7. Another key risk to the plans is that the level of Capital Grant has been estimated and therefore may be subject to change. The Home Office may be considering some further top-slices from the total Police grant allocation for capital. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over the timescale of the plans. For instance anticipated asset sales may be postponed due to the impact of the recession on the property market. A report to this meeting shows the intended Capital Programme for 2016/17 to 2019/20.

8. The Commissioner is asked to approve the summary capital expenditure projections in the table below, which also sets out how they are to be financed. This forms the first prudential indicator:

Capital Expenditure	2014/15 Actual £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Expenditure	6.378	12.785	19.397	4.582	4.722
Financed by:					
Capital receipts	0.975	0.215	1.580	0.717	0.745
Capital grants/contributions	1.284	3.962	6.357	2.365	1.292
Capital reserves	2.615	7.512	9.960	0	0
Revenue Contributions	1.504	1.096	1.500	1.500	2.685
Net financing need for the year	**0**	**0**	**0**	**0**	**0**

The Commissioner’s Borrowing Need (the Capital Financing Requirement)

9. The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Commissioner’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

10. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with the MRP policy.

11. The CFR includes other long term liabilities (ie from PFI schemes) brought onto the balance sheet. Whilst this increases the CFR, and therefore the borrowing requirement, these types of scheme include a borrowing facility and so there is no requirement to separately borrow for these schemes. There are currently £12.7m of such schemes within the CFR.

12. The Commissioner is asked to approve the CFR projections below:

	2014/15 Actual £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Capital Financing Requirement					
Total CFR	**28.887**	**27.684**	**26.260**	**24.883**	**23.349**
Movement in CFR	**(1.341)**	**(1.203)**	**(1.424)**	**(1.377)**	**(1.534)**
Movement in CFR represented by					
Net financing need for the year (above)	0.000	0.000	0.000	0.000	0.000
Less MRP/VRP and other financing movements	1.341	1.203	1.424	1.377	1.535
Movement in CFR	**(1.341)**	**(1.203)**	**(1.424)**	**(1.377)**	**(1.534)**

.Note: The MRP/VRP will include PFI lease annual principal payments

Minimum Revenue Provision (MRP) policy statement

13. The Commissioner is required to pay off an element of the accumulated capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP).

14. CLG Regulations have been issued which require the Commissioner to approve **an MRP Statement** in advance of each year. A variety of options are provided to Authorities, so long as there is a prudent provision. The Commissioner is recommended to approve the following MRP Statement.

15. For capital expenditure incurred before 1 April 2008 or which in the future is Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR, being 4% of the opening balance on the CFR for that year (Option 2).

16. From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Based on the Asset Life Method** – MRP will be based on the estimated life of the assets equal instalment method, in accordance with the regulations (Option 3). The only current unsupported borrowing is that used to fund the CCMC, which has an asset life of 50 years.

17. For Finance leases and PFI contracts that are deemed to be on balance sheet, the MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.
18. The intended Capital Programme reflects no new borrowing requirement in the period 2015/19.

The Use of the Commissioner's Resources and the Investment Position

19. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2014/15 Actual £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Fund balances	3.300	4.000	4.000	4.000	4.000
Capital receipts unapplied	0	0	0	0	0
Earmarked reserves	38.454	30.691	19.993	18.432	17.095
Earmarked reserves – regional	0.656	0.345	0.345	0.345	0.345
Provisions	2.191	1.600	1.600	1.600	1.600
Unapplied Capital Grants	9.563	7.056	1.731	0.259	
Total Core Funds	**54.164**	**43.692**	**27.669**	**24.636**	**23.040**
Working Capital*	(3.907)	(2.000)	(2.000)	(2.000)	(2.000)
Under Borrowing	(9.647)	(9.651)	(9.672)	(9.709)	(9.760)
Expected Investments at year end	**40,610**	**32.041**	**15.997**	**12.927**	**11.280**

*Working capital balances shown are estimated year end; these may be higher at various points throughout the year and the average will be considerably higher. The revenue budget will reflect the estimated interest received on the average cash balance.

20. The table above shows that under borrowing is estimated at £9.7m in 2016/17. Whilst interest rates for investments remains low and the Commissioner's longer term cash flow is favourable, it is cost-effective to use our own resources to fund capital expenditure at least in the short term. This means we are not taking out external borrowing at the present time. If however we need to use more of our internal resources we will eventually reach the point where we need to borrow to replenish the resources that we have used temporarily to fund our capital programme. This will be kept under review.

Affordability Prudential Indicators

21. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment

plans on the Commissioner’s overall finances. The Commissioner is asked to approve the following indicators:

22. **The ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs, net of investment income) against the net revenue stream. The indicator includes the cost of capital for PFI schemes.

	2014/15 Actual £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Cost of Capital (1)	2.780	2.551	2.690	2.853	2.913
Investment Income (2)	(0.249)	(0.210)	(0.150)	(0.150)	(0.150)
Financing Costs(1)-(2)	2.531	2.341	2.540	2.703	2.763
Net Revenue Stream based on frozen precept	164.709	161.507	161.575	162.786	163.808
Percentage	1.54%	1.45%	1.57%	1.47%	1.50%
Net Revenue Stream based on 1.99% precept increase			162.792	163.831	164.931
Percentage			1.56%	1.46%	1.49%

Note: 2016/17 Net Revenue Stream has been calculated based on two possible precept increases:

- On a frozen Council Tax for 2016/17 and a 1.99% increase in Council Tax for years thereafter.
- On a 1.99% increase in Council Tax in 2016/17 and in each subsequent year

This is indicative only and is in no way meant to influence the actual funding in future years.

23. The estimates of financing costs include current commitments and any arising from the capital programme. Investment income has been affected by the economic climate, the fall in interest rates and the more cautious approach to the treasury strategy.

24. Financing costs continue to represent a relatively small proportion of the Commissioner’s net revenue stream.

25. **The incremental impact of capital investment decisions on the Police Precept** – This indicator identifies the revenue costs associated with proposed changes to the three year capital programme compared to the existing approved commitments and current plans. The assumptions are based on the capital programme, but will invariably

include some estimates, such as the level of Government support, which are not published over a three year period.

26. **Incremental impact of capital investment decisions on the Band D Police Precept**

Police Precept – Band D	Revised Budget 2015/16 £	Forward Projection 2016/17 £	Forward Projection 2017/18 £	Forward Projection 2018/19 £
(i) Existing Commitments	2.90	2.70	2.51	2.34
(ii) Above plus SCE	2.90	2.70	2.51	2.34
(iii) Above plus unsupported borrowing	2.90	2.70	2.51	2.34
(iv)Difference between (iii) and (i)	0.00	0.00	0.00	0.00

Notes

- Changes to RCCO have been excluded.

27. As no new borrowing is currently proposed during the period there is no incremental impact of capital investment decisions.

Treasury Management Strategy 2016/17 – 2018/19

1. The treasury management service is an important part of the overall financial management of the Commissioner's affairs. The prudential indicators in **Annex A** consider the affordability and impact of capital expenditure decisions, and set out the Commissioner's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures that the balanced budget requirement under the Local Government Finance Act 1992 is met. This broadly means ensuring that cash expenditure during the year is covered by cash raised.
2. The Commissioner's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This organisation adopted the Code of Practice on Treasury Management in January 2013.
3. As a result of adopting the Code the organisation also adopted a Treasury Management Policy Statement (January 2013). This adoption is the requirements of one of the prudential indicators.
4. CIPFA defines treasury management as:-

   "The management of the [PCC'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."

5. The Commissioner is required to receive and approve, as a minimum, three main reports each year
   - **The annual Prudential and treasury indicators and treasury strategy** (this report) outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service.
   - **A mid year treasury management report**. This provides an update on progress against the indicators and on treasury management performance. Monitoring reports will usually be taken to the Strategic Governance Board twice a year.
   - **An annual treasury management report.** This provides details of a selection of actual prudential and treasury indicators and Actual treasury operations compared to estimates within the strategy. The annual report is taken to the Strategic Governance Board in June.
6. This annual strategy covers:
   - The Commissioner's debt and investment projections;
   - The estimates and limits on future debt levels (limits to borrowing);
   - The expected movement in interest rates;

- The Commissioner's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;

Debt and Investment Projections 2016/17 – 2018/19

7. The Commissioner's treasury portfolio position at 31 March 2015, with forward projections to 31 March 2019 are summarised below. The table below shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

	2014/15 Actual £m	2015/16 Revised £m	2016/17 Estimated £m	2017/18 Estimated £m	2018/19 Estimated £m
External Debt					
Debt at 1 April	7.103	6.557	6.011	5.465	4.920
Expected change in debt	(0.546)	(0.546)	(0.546)	(0.545)	(0.545)
Other Long Term Liabilities	12.683	12.022	11.123	10.254	9.214
Gross Debt at 31 March	**19.240**	**18.033**	**16.588**	**15.174**	**13.589**
CFR	28.887	27.684	26.260	24.883	23.349
Under/ (over) borrowing	9.647	9.651	9.672	9.709	9.760

8. Within the prudential indicators there are a number of key indicators to ensure that the Commissioner operates within well-defined limits.
9. One of these is that the Commissioner needs to ensure that total gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.
10. The Treasurer reports that the Commissioner complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the capital programme report.

Treasury Indicators - Limits to Borrowing Activity

11. **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed during the course of the year.

It is not an actual limit and borrowing could vary around this boundary for short times during the year. The limit is set using the start of year external debt figures plus a contingency for the overdraft limit plus long term liabilities (PFI).

Operational Boundary	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	7.5	7.0	6.5	5.9
Other long term liabilities	12.7	12.0	11.1	10.3
Total	20.2	19.0	17.6	16.2

The Operational Boundary estimates are currently substantially below the Capital Financing Requirement. This reflects the use of internal borrowing to fund parts of the Capital Programme in previous years. As and when external borrowing replaces the use of internal funds, the Operational Boundary will move closer to the CFR.

12. **The Authorised Limit for External Debt –** A further key prudential indicator represents a control on the overall maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Commissioner. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.
13. The Authorised Limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities' plans, or those of a specific Authority, although no control has yet been exercised.
14. The Commissioner is asked to approve the following Authorised Limit:

Authorised limit	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	16.0	15.5	14.9	14.3
Other long term liabilities	12.0	11.1	10.3	9.2
Total	28.0	26.6	25.2	23.5

15. The figures for the proposed authorised limit for 2016/17 take into account:

(a) The estimated amount of outstanding borrowing approvals on capital expenditure at 31 March 2016 (£5.651m) plus borrowing of

£0.360m regarding transferred debt from Derbyshire County Council and Derby City Council which remains outstanding, which arose upon reorganisation.

(b) Any new external borrowing for capital schemes during 2016/17 (no external borrowing is planned) less the estimated amount for debt redemption within 2016/17 loan charges (£0.546m).

(c) The amount of any short-term borrowing pending receipt of grant on capital schemes. The estimated maximum figure for 2016/17 is £1.0m.

(d) The amount of any short-term borrowing pending receipt of revenue income. This should be minimal, but in order to cover any unforeseen changes in cash flow patterns (for example the timing of receipt of Government Grants in 2016/17), it is suggested a figure of £9m be used.

(e) The figure for other long-term liabilities is an allowance for items such as the capital value of qualifying property leases or finance leases which may arise. The figure for 2016/17 includes £11.123m for PFI Liabilities.

16. Based on the above, it is proposed that the authorised limit for outstanding debt should be set at £26.6m for 2016/17. Proposed limits for future years have been calculated in a similar manner taking into account the future borrowing requirements.

Expected Movement in Interest Rates

17. The Commissioner has appointed Capita Asset Services as his treasury advisor and part of their service is to assist him to formulate a view on interest rates. The following table gives the Sector central view.

Annual Average %	**Bank Rate**	**Money Rates**		**PWLB Borrowing Rates**		
		3 month	**1 year**	**5 year**	**25 year**	**50 year**
Mar 2016	0.50	0.50	0.90	2.40	3.70	3.60
June 2016	0.75	0.50	1.00	2.60	3.80	3.70
Sept 2016	0.75	0.60	1.10	2.70	3.90	3.80
Dec 2016	1.00	0.80	1.30	2.80	4.00	3.90
Mar 2017	1.00	0.90	1.40	2.80	4.10	4.00
June 2017	1.25	1.10	1.50	2.90	4.10	4.00
Sept 2017	1.50	1.10	1.60	3.00	4.20	4.10
Dec 2017	1.50	1.30	1.80	3.20	4.30	4.20
Mar 2018	1.75	1.40	1.90	3.30	4.30	4.20
June 2018	1.75	1.50	2.00	3.40	4.40	4.30
Sept 2018	2.00	1.80	2.30	3.50	4.40	4.30

Dec 2018	2.00	1.90	2.40	3.50	4.40	4.30
Mar 2019	2.00	2.10	2.60	3.60	4.50	4.40

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation. Since the summer of 2015, however, the rate of wage increases has fallen from 3.25% to about 2.5% due to a downturn in the manufacturing and construction sectors. At the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. Very recently the governor of the Bank of England has ruled out an early rise in interest rates due to UK growth being still too weak and prospects for future growth being likely to be hampered by poor global growth.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.1% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 has prepared the way for the Federal Reserve. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases

will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, this lacklustre progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
    - Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years.

However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns

Borrowing Strategy 2016/17 – 2018/19

18. The Commissioner is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as the cash supporting reserves, balances and cash flow has been used to pay for capital expenditure as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

19. This policy also relies on the availability of internal resources and this will be kept under review as more work is done on identifying revenue requirements to address the policing risk gap as well as funding required for new capital projects.

20. Against this background and the risks within the economic forecast – especially the uncertainty over future interest rates – caution will be adopted with the treasury management operations in 2016/17. As a result the Commissioner will take a pragmatic approach to its treasury strategy, enabling him to respond to either of 2 scenarios:

    - if it is assessed that there is a significant risk of a sharp **fall** in long and short-term rates (eg. due to a marked increase of risks around relapse into recession or of risks of deflation), then further long-term borrowing will be postponed
    - if it is assessed that there is a significant risk of a much sharper **rise** in long and short-term rates than that currently forecast then the borrowing position may be re-assessed with a view to taking out new borrowing before the interest rates rises take effect. This may occur in advance of need, in terms of relevant expenditure within the Capital Programme. In such a case, a clear business case would be presented to support this course of action.

21. It is currently assumed that no external borrowing will take place during the period 2016/17 to 2018/19.

22. External borrowing may be taken out in future years for capital purposes over a period to be determined at that time. The main source of new loans has previously been the Public Works Loans Board

(PWLB), and it is estimated that all of the Commissioner's borrowing requirements could be sourced from here. Historically the PWLB has offered the lowest rates. However the banking sector may be competitive from time to time. Consequently it is recommended that the approved sources of borrowing in the first instance should be both the PWLB and the London Money Market.

23. In 2012/13 the Government introduced the 'certainty rate' discount on PWLB loans which enables eligible local authorities to access cheaper borrowing. This gives a 20 basis points discount on loans from the PWLB. Borrowing would have to feature in the Commisioner's long-term plans in order for it to qualify for this discount.

Policy on borrowing in advance of need. The Commissioner will not borrow more than, or in advance of, its needs purely to benefit from the investment of extra sums borrowed. As stated above, any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and security of such funds be obtained.

Debt Rescheduling/Repayment – Consideration will be given to rescheduling or repayment of debt prematurely. Any savings from rescheduling/repayment of debt would have to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). No such rescheduling or early repayment is currently planned during the period covered by this report.

Treasury Management Limits on Activity

24. There are three further debt related treasury activity limits. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set at too restrictive a level they will impair the opportunities to reduce costs and/or improve performance. The indicators are:

25. **Upper limits on variable and fixed interest rate exposure**

Recommended upper limits on the percentage of borrowing and investments held at fixed and variable rates, as required by the Code, are set out below:

	2016/17 Upper	2017/18 Upper	2018/19 Upper
Borrowing			
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	30%	30%	30%
Investments			
Limits on fixed interest rates	20%	20%	20%

Limits on variable interest rates	100%	100%	100%

For investments, fixed interest rates are deemed to apply to loans for more than one year.

Limits set at these levels will provide for efficient debt management, within an acceptable degree of risk. For the purposes of the Code, investments are to be deducted from borrowing to produce adjusted limits, but within the above parameters.

26. **Maturity structures of borrowing**

The maturity profile is the rate at which long-term loans have to be repaid to the PWLB (or other lenders). It would be imprudent to have a large proportion of repayments in any one year, thus a spread of redemption's is desirable.

Currently most of the Commissioner's loan debt is repayable over a period of 25 years. One loan is repayable on maturity.

The maturity structure is a prudential indicator under the Code, with lower and upper limits recommended as shown in the table below.

Maturity Structure of fixed interest rate borrowing			
		2016/17	**Currently**
Under 12 months	Lower-Upper	0%-10%	8.2%
12 months to 2 years	Lower-Upper	0%-10%	8.2%
2 years to 5 years	Lower-Upper	0%-30%	24.7%
5 years to 10 years	Lower-Upper	0%-40%	41.4%
10 years and above	Lower-Upper	25%-90%	17.5%

Investment Strategy 2016/17 – 2018/19

27. **Investment Policy -** The Commissioner's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Commissioner's primary objectives are: first – security, meaning safeguarding the repayment of the principal and interest of his investments on time; and second - ensuring adequate liquidity. The investment return obtainable is then a third objective.

28. In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Commissioner applies minimum acceptable credit criteria to create a list of highly creditworthy counterparties for inclusion on the lending list. This enables diversification and thus avoidance of concentration risks

29. Regulatory changes in the banking sector since 2014 have aimed to create greater stability, lower risk and remove expectations of Government financial support should an institution fail. These changes have affected the ratings applied to institutions so that the key ratings used to evaluate counterparties are now the Short Term and Long Term ratings only. Viability, Financial Strength and Support ratings which were previously used have been removed from the evaluation, a change which was incorporated into the Commissioner's lending policy, as approved by the Strategic Governance Board on 10 November 2014.

30. The Commissioner's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

31. Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

32. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus the avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

33. Investment instruments identified for use in the financial year are listed in Appendix B1 under the 'Specified' and 'Non-Specified' Investments categories.

Creditworthiness policy

34. The primary principle governing the Commissioner's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Commissioner will ensure:

    - He maintains a policy covering both the categories of investment types he will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
    - He has sufficient liquidity in his investments. For this purpose he will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the prudential indicators covering the maximum principal sums invested.

35. The Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the

Commissioner for approval as necessary. These criteria are separate to those which determine Specified and Non-Specified investments (see Appendix B1) as they provide an overall pool of counterparties considered high quality that the PCC may use, rather than defining what types of investment instruments are to be used.

36. The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Commissioner's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies and one rating meets the criteria and the other does not, then the institution will fall outside the lending criteria.

37. Credit rating information is supplied by Capita Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes are provided to officers almost immediately after they occur and this information is considered before dealing.

38. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- **Banks/Building Societies 1 - Good Credit Quality** – the Commissioner will only use UK banks and Building Societies which have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
    1. **Short Term Rating- F1 (or equivalent) from Fitch, Moody's (P-1) or S&P's (A-1)**
    2. **Long Term Rating-** A (single A category) or equivalent from Fitch, Moody's or S&P's.
- **Banks 2** – Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- **Banks 3** - The Commissioner's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- **UK Government** (eg Debt Management Account Deposit Facility (DMADF))
- **Local Authorities**
- **Money Market Funds –** "AAA" rated by Fitch, Moody's and S&P

39. **Country and sector considerations** – the Commissioner will only invest in UK banks and building societies with the above ratings.

40. **Use of additional information other than credit ratings** Additional requirements under the Code require the Commissioner to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision. This additional market information (for example negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties on the approved list.

41. **Time and Monetary Limits applying to Investments** – The time and monetary limits for institutions on the Commissioner's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch (or equivalent)	**Money Limit (group)**	**Time Limit**
Banks/Building Societies 1 - Upper Limit	*F1+ (S/T)* *AA- (L/T)*	£10m (£3m if > 365 days)	2yrs
Banks/Building Societies 1 – Middle Limit	F1 (S/T) A- (L/T)	£6m	1yr
Banks 2 Part nationalised banks	N/A	£10m	1yr
Banks 3 PCC's banker		£10m	1yr
Money Market Funds	AAA	£10m	1yr
Debt Management Account Deposit Facility		£35m	1yr
Local Authorities		£20m (£6m per authority)	1yr

Note – In addition to the above on a temporary basis and subject to approval by the Treasurer or the Director of Finance an additional £2m (increases amount to £12m) can be invested with Barclays Bank for a maximum of 5 days

42. The proposed criteria for Specified and Non-Specified investments are shown in Appendix B1 for approval.

43. The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Commissioner's liquidity requirements are safeguarded. This will also be limited by the longer term investment limits.

44. The list of counterparties (who currently meet these criteria) for approval is attached at Appendix B2 along with their current ratings and limits. Definitions of credit ratings are shown in Appendix B3.

Investment Strategy

45. **In house funds** - Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

46. **Investment returns expectations.** Bank Rate is forecast to begin to increase from its long-standing 0.5% level as from quarter 1 of 2016. Bank Rate forecasts for financial year ends (March) are:

    - 2016/17 1.00%
    - 2017/18 1.75%
    - 2018/19 2.00%

    There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken there could be upside risk.

    The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst the Commissioner is asked to approve these base criteria, under the exceptional current market conditions the Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Investment treasury indicator and limit

47. **Total principal funds invested for greater than 364 days**

These limits are set with regard to the Commissioner's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year end. A limit for lending for more than one year is set out below:

Maximum principal sums invested > 364 days

£m	2016/17	2017/18	2018/19
Principal sums invested > 364 days	£3m	£3m	£3m

End of year investment report

48. At the end of the financial year, the Commissioner will report on his investment activity as part of his Annual Treasury Management report.

Policy on the use of external service providers

49. The Commissioner uses Capita Asset Services, Treasury Solutions as its external Treasury management advisors. The company provides a range of services which include:
    - Technical support on treasury matters, capital finance issues and the drafting of reports;
    - Economic and interest rate analysis;
    - Debt services which includes advice on the timing of borrowing;
    - Debt rescheduling advice surrounding the existing portfolio;
    - Generic investment advice on interest rates, timing and investment instruments;
    - Credit ratings/market information service comprising the three main credit rating agencies;
50. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice responsibility for the final decision on treasury matters remains with the organisation at all times.
51. The terms under which Capita Asset Services are employed and the services provided are properly agreed and documented, and are subject to regular review.

Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the Commissioner's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for organisations to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires that the Commissioner have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Commissioner adopted the Code in January 2013 and will apply its principles to all investment activity. In accordance with the Code, the Treasurer has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- The Specified investments the Commissioner will use, as defined below.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Commissioner is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. A local authority.

3. A body that is considered of a high credit quality (such as a bank or building society). For category 3 this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Fitch, Moody's (P-1) or Standard and Poor's (A-1) rating agencies.
4. Part nationalised UK banks, if they continue to be part nationalised or they meet the criteria in *(3)* above.
5. Money Market Funds that have been awarded a high credit rating (AAA) by Fitch, Moody's or Standard and Poor's rating agencies.

Within these bodies, and in accordance with the Code, the Commissioner has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are shown in paragraph 45 of Annex B.

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The Commissioner is required to look at non-specified investments in more detail. He must set out:

- procedures for determining which categories of non-specified investments should be used
- the categories deemed to be prudent
- the maximum amount to be held in each category

The Strategy must also set out procedures for determining the maximum period for committing funds.

It is recommended that the following procedure be adopted for determining which categories of non-specified investments should be used:

- the Commissioner should approve categories on an annual basis
- advice should be provided by the Treasurer to the Commissioner
- priority should be given to security and liquidity ahead of yield

On this basis the following categories of non-specified investments are currently considered as prudent and are recommended for use:

(a) investments in excess of 364 days but for not more than 2 years duration with counter-parties on the Commissioner's list provided that they have

Short Term - F1+ (or equivalent from Moody's and Standard & Poors)
Long Term – AA- or better (or equivalent from Moody's and Standard & Poors)

(b) the Commissioner's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.

It is recommended that the limit for category (a) should be set at £1m per counterparty subject to an overall limit of £3m. Whilst most of the Commissioner's surpluses are of a temporary nature, others such as the insurance provision and PFI reserves could reasonably be invested for periods in excess of one year. These instruments will only be used where the Authority's liquidity requirements are safeguarded. For category (b) balances will be minimized as far as is possible in the event of the bank falling below the basic criteria.

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Commissioner receives credit rating information from Capita Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. No further investment will be made with any counterparty failing to meet the criteria. If required, new counterparties which do meet the criteria will be added to the list under the delegated authority of the Treasurer and any changes will be reported to a later Strategic Governance Board.

List of Approved Counterparties for Lending for Derbyshire Police Authority.

Any values highlighted in yellow have undergone a change in the past 14 days.

Counterparty		Fitch Ratings			Moodys Ratings			S&P Ratings			Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)	Monetary Limit	Duration	Notes
			Long Term	Short Term		Long Term	Short Term		Long Term	Short Term								
United Kingdom		SB	AA+		SB	Aa1		NO	AAA				22.55					
AAA rated and Government backed securities	Debt Management Office										Y - 60 mths	Y - 60 mths			Not Applicable	35.00 Million	6 Months	(M)
Banks	Bank of Scotland PLC	SB	A+	F1	PO	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	58.47		R - 6 mths	10.00 Million	1 Years	(M)
	Barclays Bank PLC	SB	A	F1	SB	A2	P-1	SB	A-	A-2	R - 6 mths	R - 6 mths	73.78		R - 6 mths	10.00 Million	1 Years	(M) Council's Bank
	Close Brothers Ltd	SB	A	F1	SB	Aa3	P-1				R - 6 mths	R - 6 mths			R - 6 mths	6.00 Million	1 Years	
	Goldman Sachs International Bank	PO	A	F1	SB	A1	P-1	PW	A	A-1	R - 6 mths	R - 6 mths	100.21		G - 100 days	6.00 Million	1 Years	
	HSBC Bank PLC	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	91.15		O - 12 mths	10.00 Million	1 Years	£3 Mln/2 Yrs
	Lloyds Bank Plc	SB	A+	F1	PO	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	62.58		R - 6 mths	10.00 Million	1 Years	(M)
	Santander UK PLC	PO	A	F1	SB	A1	P-1	NO	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths	6.00 Million	1 Years	
	Standard Chartered Bank	NO	A+	F1	NW	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	167.47		N/C - 0 mths	6.00 Million	1 Years	
	Sumitomo Mitsui Banking Corporation Europe Ltd	SB	A	F1	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	90.18		R - 6 mths	6.00 Million	1 Years	
	UBS Ltd.	PO	A	F1	SB	A1	P-1	PO	A	A-1	R - 6 mths	R - 6 mths	59.11		R - 6 mths	6.00 Million	1 Years	
Building Society	Coventry Building Society	SB	A	F1	PO	A2	P-1				R - 6 mths	R - 6 mths			R - 6 mths	6.00 Million	1 Years	
	Leeds Building Society	SB	A-	F1	SB	A2	P-1				R - 6 mths	R - 6 mths			R - 6 mths	6.00 Million	1 Years	
	Nationwide Building Society	SB	A	F1	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths	6.00 Million	1 Years	
Nationalised and Part Nationalised Banks	National Westminster Bank PLC	SB	BBB+	F2	PO	A3	P-2	SB	BBB+	A-2	B - 12 mths	B - 12 mths			Not Applicable	10.00 Million	1 Years	(M)
	The Royal Bank of Scotland Plc	SB	BBB+	F2	PO	A3	P-2	SB	BBB+	A-2	B - 12 mths	B - 12 mths	75.76		Not Applicable	10.00 Million	1 Years	(M)

Report generated: 19/01/2016 15:01

Advisory notes:

Local Authorities - 1 Year - £20 Million / £6 Million per LA

Money Market Funds - Unlimited - £10 Million

1Year / £10M - 2 Years/ £3M

(M) = Manually added counterparty. If a rating changes for this institution it will not alter its status on the counterparty list, or limits assigned to it.

Report generated: 19/01/2016 15:01

Key

Watches and Outlooks

SB	Stable Outlook
NO	Negative Outlook
NW	Negative Watch
PO	Positive Outlook
PW	Positive Watch
EO	Evolving Outlook
EW	Evolving Watch
WD	Rating Withdrawn

CDS

Indicator	Status
● (green)	In Range
● (orange)	Monitoring
● (red)	Out of Range

Duration

Duration	Code
60 Months	Y
24 Months	P
12 Months	B
12 Months	O
6 Months	R
100 Days	G
0 Months	N/C

DISCLAIMER: Capita Asset Services would like to inform clients that we supply the credit ratings of financial institutions from the rating agencies. We do not advise on the groupings of such financial institutions as we believe that knowledge can only be obtained from credit rating agencies. Whilst we make every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the accuracy, completeness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Capita Asset Services should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the information as a substitute for the exercise by the Client of its own judgement. This document has been produced solely for the use of clients of Capita Asset Services, Treasury solutions. The documentation itself, or any of the information contained therein, should not be disclosed to any third party without the prior written approval of Capita Asset Services. Strictly private and confidential.

Credit Ratings

Definition - Short-Term Bank Deposit Ratings (Fitch)

F1 - Highest credit quality.
Indicates the strongest capacity for timely payment of financial commitments; may have an added '+' to denote any exceptionally strong credit feature.

F2 - Good credit quality.
A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

F3 - Fair credit quality.
The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non-investment grade.

B - Speculative.
Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.

C - High default risk.
Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.

D - Default.
Indicates an entity or sovereign that has defaulted on all of its financial obligations.

Definition - Long-Term Bank Deposit Ratings (Fitch)

AAA – Highest credit quality.
'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA – Very high credit quality.
'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments . This capacity is not significantly vulnerable to foreseeable events.

A – High credit quality.
'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances and economic conditions than is the case for higher ratings. Susceptibility to long term risks appears somewhat greater.

BBB - Good credit quality.
'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in

circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

Speculative Grade

BB - Speculative.
'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B - Highly speculative.
For issuers and performing obligations, 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment.
For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of 'RR1' (outstanding).

CCC – Substantial credit risk.
For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic conditions.
For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of 'RR2' (superior), or 'RR3' (good) or 'RR4' (average).

CC – Very High levels of credit risk.
For issuers and performing obligations, default of some kind appears probable.
For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of 'RR4' (average) or 'RR5' (below average).

C – Exceptionally high levels of credit risk.
For issuers and performing obligations, default is imminent.
For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of 'RR6' (poor).

RD – Restricted default.
Indicates an entity that has failed to make due payments (within the applicable grace period) on some but not all material financial obligations, but continues to honour other classes of obligations.

D – Default.
Indicates an entity or sovereign that has defaulted on all of its financial obligations. Default generally is defined as one of the following:

Failure of an obligor to make timely payment of principal and/or interest under the contractual terms of any financial obligation;
The bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of business of an obligor;
The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

Definition – Viability Ratings (Fitch only)

Viability Ratings are designed to be internationally comparable and represent Fitch's view as to the intrinsic creditworthiness of an issuer. The Viability Rating is a key component of a bank's Issuer Default Rating and considers various factors including:

- Industry profile and operating environment.
- Company profile and risk management.
- Financial profile.
- Management strategy and corporate governance.

Viability Ratings are assigned to banks and in limited cases, to similar legal entities where it is considered useful to clarify the source of an entity's financial strength. Notably, the Viability Rating excludes any extraordinary support that may be derived from outside of the entity as well as excluding potential benefits to a bank's financial position from other extraordinary measures, including a distressed restructuring of liabilities.

Viability Ratings represent the capacity of the bank to maintain on-going operations and to avoid failure, the latter being indicated by extraordinary and company specific measures becoming necessary to protect against a bank's default.

aaa - Highest fundamental credit quality.
The best prospects for on-going viability and lowest expectation of failure risk. They are assigned only to banks with extremely strong and stable fundamental characteristics, such that they are most unlikely to rely on extraordinary support to avoid default. This capacity is highly unlikely to be adversely affected by foreseeable events.

aa - Very high fundamental credit quality.
Very strong prospects for on-going viability. Fundamental characteristics are very strong and stable; such that it is considered highly unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity is not significantly vulnerable to foreseeable events.

a - High fundamental credit quality.
Strong prospects for on-going viability. Fundamental characteristics are strong and stable, such that it is unlikely that the bank would have to rely on extraordinary support to avoid default. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

bbb - Good fundamental credit quality.

Good prospects for on-going viability. The bank's fundamentals are adequate, such that there is a low risk that it would have to rely on extraordinary support to avoid default. However, adverse business or economic conditions are more likely to impair this capacity.

bb – Speculative fundamental credit quality.
Moderate prospects for ongoing viability. A moderate degree of fundamental financial strength exists, which would have to be eroded before the bank would have to rely on extraordinary support to avoid default. However, an elevated vulnerability exists to adverse changes in business or economic conditions over time.

b - Highly speculative fundamental credit quality.
Weak prospects for on-going viability. Material failure risk is present but a limited margin of safety remains. The bank's capacity for continued unsupported operation is vulnerable to deterioration in the business and economic environment.

ccc - Substantial fundamental credit risk.
Failure of the bank is a real possibility. The capacity for continued unsupported operation is highly vulnerable to deterioration in the business and economic environment.

cc - Very high levels of fundamental credit risk.
Failure of the bank appears probable.

c - Exceptionally high levels of fundamental credit risk.
Failure of the bank is imminent or inevitable.

f
Indicates an issue, in Fitch's opinion, has failed, and that either has defaulted or would have defaulted had it not received extraordinary support or benefited from other extraordinary measures.

Notes: The modifiers "+" or "−" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'aaa' Viability Rating category or to Viability Rating categories below 'b'. Outlooks are not assigned to Viability Ratings although at any point in time, a bank's position and prospects may have underlying trends, for example improving, deteriorating or stable.

Definition – Financial Strength (Moody's only)

The Financial Strength rating "can be understood as a measure of the likelihood that a bank will require assistance from third parties such as its owners, its industry group, or official institutions" – Moody's

Bank Financial Strength Rating Definitions

A

Banks rated A possess superior intrinsic financial strength. Typically, they will be institutions with highly valuable and defensible business franchises, strong financial fundamentals, and a very predictable and stable operating environment.

B

Banks rated B possess strong intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises, good financial fundamentals, and a predictable and stable operating environment.

C

Banks rated C possess adequate intrinsic financial strength. Typically, they will be institutions with more limited but still valuable business franchises. These banks will display either acceptable financial fundamentals within a predictable and stable operating environment, or good financial fundamentals within a less predictable and stable operating environment.

D

Banks rated D display modest intrinsic financial strength, potentially requiring some outside support at times. Such institutions may be limited by one or more of the following factors: a weak business franchise; financial fundamentals that are deficient in one or more respects; or an unpredictable and unstable operating environment.

E

Banks rated E display very modest intrinsic financial strength, with a higher likelihood of periodic outside support or an eventual need for outside assistance. Such institutions may be limited by one or more of the following factors: a weak and limited business franchise; financial fundamentals that are materially deficient in one or more respects; or a highly unpredictable or unstable operating environment.

Note: Where appropriate, a "+" modifier will be appended to ratings below the "A" category and a "-" modifier will be appended to ratings above the "E" category to distinguish those banks that fall in intermediate categories.

Definition – Support (Fitch only)

The Support rating is " Fitch's assessment of a potential supporter's (either a sovereign state's or an institutional owner's) propensity to support a bank and of its ability to support it" - Fitch

1 denotes:
A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-',

2 denotes:
A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.

3 denotes:
A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.

4 denotes:
A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.

5 denotes:
A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.