THE FOLLOWING DOCUMENT WAS APPROVED AT THE DERBYSHIRE POLICE AUTHORITY MEETING ON 23 FEBRUARY 2012.

Treasury Management Strategy 2012/13 – 2014/15

1. The treasury management service is an important part of the overall financial management of the Authority's affairs. The prudential indicators in **Annex A** consider the affordability and impact of capital expenditure decisions, and set out the Authority's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Authority meets its balanced budget requirement under the Local Government Finance Act 1992.

2. The Authority's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Authority adopted the Code of Practice on Treasury Management in February 2011.

3. As a result of adopting the Code the Authority also adopted a Treasury Management Policy Statement (February 2011). This adoption is the requirements of one of the prudential indicators.

4. The Authority is required to receive and approve, as a minimum, three main reports each year:

   - The annual strategy 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 updates the Authority of progress against the indicators and Treasury Management performance. Monitoring reports are usually taken to the Resources Committee in September and February.
   - 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 Resources Committee in June.

5. This annual strategy covers:

   - The Authority's debt and investment projections;
   - The Authority's estimates and limits on future debt levels (limits to borrowing);
   - The expected movement in interest rates;
   - The Authority's borrowing and investment strategies;
   - Treasury performance indicators;
   - Specific limits on treasury activities;

Debt and Investment Projections 2012/13 – 2014/15

6. The Authority's treasury portfolio position at 31 March 2011, with forward projections 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. The table also highlights the expected change in investment balances and net debt.

	2010/11 Actual £m	2011/12 Revised £m	2012/13 Estimated £m	2013/14 Estimated £m	2014/15 Estimated £m
External Debt					
Debt at 1 April	9.745	9.199	8.652	8.106	7.560
Expected change in debt	(0.546)	(0.546)	(0.546)	(0.546)	(0.546)
Other Long Term Liabilities	14.851	14.180	13.715	13.466	12.683
Debt at 31 March	**24.050**	**22.833**	**21.821**	**21.026**	**19.697**
CFR	33.844	32.542	31.466	30.625	29.268
Under/ (over) borrowing	9.794	9.709	9.645	9.599	9.571
Investments					
Total Investments at 31 March	**32.682**	**32.697**	**28.417**	**25.780**	**20.696**
Investment change		0.015	(4.280)	(2.637)	(5.084)
Net Debt	**(8.632)**	**(9.864)**	**(6.596)**	**(4.754)**	**(0.999)**

7. Within the prudential indicators there are a number of key indicators to ensure the Authority operates its activities within well defined limits.

8. One of these is that the Authority needs to ensure that its total borrowing net of any investments, 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 2012/13 and the following two financial years (the relevant comparative figures are highlighted in the above table). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

9. The Treasurer reports that the Authority 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 this capital programme report.

Treasury Indicators - Limits to Borrowing Activity

10. The Operational Boundary – this is based on the probable external debt during the course of the year; it is not a limit and actual 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	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	10.3	9.6	9.1	8.6
Other long term liabilities	14.9	14.2	13.8	13.5
Total	25.2	23.8	22.9	22.1

11. The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Authority. 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.

12. This 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.

13. The Authority is asked to approve the following Authorised Limit:

Authorised limit	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	16.7	16.1	15.6	15.1
Other long term liabilities	14.2	13.8	13.5	12.6
Total	30.9	29.9	29.1	27.7

14. The figure approved in February 2011 for the Authorised limit for 2011/12 was £32.2m, this has been revised for a reinstatement for PFI Liabilities. The new revised limit is £30.9m.

15. The figures for the proposed authorised limit for 2012/13 take into account:

    (a) The estimated amount of outstanding borrowing approvals on capital expenditure at 31 March 2012 (£7.971m) plus borrowing of £0.681m regarding transferred debt from Derbyshire County Council and Derby City Council which remains outstanding, which arose upon reorganisation.

(b) New external borrowing for capital schemes during 2012/13 (it is intended to take out no borrowing in 2012/13) less the estimated amount for debt redemption within 2012/13 loan charges (£0.546m).

(c) The amount of any short-term borrowing pending receipt of grant on capital schemes. The estimated maximum figure for 2012/13 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 2012/13), it is suggested a figure of £7m be used.

(e) 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 2012/13 includes £13.715m for PFI Liabilities.

16. Based on the above, it is proposed that the authorised limit for outstanding debt should be set at £29.9m for 2012/13. 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 Authority has appointed Sector as its treasury advisor and part of their service is to assist the Authority 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
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

18. Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to

the Eurozone sovereign debt crisis depressing growth in the UK’s biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK’s annual fiscal deficit, will also depress growth during the next few years.

19. Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

20. This challenging and uncertain economic outlook has a several key treasury mangement implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy 2012/13 – 2015/16

21. The Authority 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 cash supporting the Authority’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high.

22. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Authority will continue to take a cautious approach to its treasury strategy

23. It is assumed that no external borrowing will take place in 2012/13 to 2015/16.

24. 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), which it is estimated could provide all of the Authority’s requirement. Following the

Comprehensive Spending Review in 2010 the PWLB increased borrowing interest rates by approximately 1%, without changing debt redemption interest rates. Historically the PWLB has offered the lowest rates, although now the rates have increased, the banking sector may be competitive from time to time. Consequently it is recommended that the approved source of borrowing should be both PWLB loans and the London Money Market.

25. Borrowing in advance of need – Some Authorities may borrow funds in advance for use in future years. This may occur where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. A cautious approach should be adopted for any such borrowing, but where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. This is not an approach that has been adopted by this Authority, if this was proposed in the future it would be reported to committee for approval.

26. 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). Currently it is not proposed to repay or reschedule any debt. In 2013, the Authority has agreed in principle to join the National Police Air Service (NPAS) project. Any outstanding loans for the Helicopter Unit will be considered for repayment as part of the closedown of the unit. Any rescheduling or repayment of debt prematurely would be reported to committee for approval.

Treasury Management Limits on Activity

27. 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 to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

28. **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:

	2012/13 Upper	2013/14 Upper	2014/15 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.

29. **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 Authority's loan debt is repayable over the next 25 years. One loan for the Helicopter Unit is repayable over 12 years and two loans are 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			
		2012/13	**Currently**
Under 12 months	Lower-Upper	0%-10%	5.8%
12 months to 2 years	Lower-Upper	0%-10%	5.8%
2 years to 5 years	Lower-Upper	0%-30%	17.6%
5 years to 10 years	Lower-Upper	0%-40%	28.9%
10 years and above	Lower-Upper	25%-90%	41.9%

Investment Strategy 2012/13 – 2014/15

30. **Investment Policy -** The Authority's investment policy has regard to the CLG'S Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Authority's primary objectives are safeguarding the re-payment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective.

31. In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Authority has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agengy. Using the Sector ratings service, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

32. Further, the Authority'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.

33. Other information sources used will include the financial press, share price 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.

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

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

36. **Creditworthiness policy -** The primary principle governing the Authority'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 Authority will ensure:

    - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

    - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

37. The Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Police Authority for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments (see Appendix B1) as it

provides an overall pool of counterparties considered high quality the Authority may use rather than defining what types of investment instruments are to be used.

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

39. 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 Authority 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):

- **Short Term Rating-** F1 (or equivalent) from Fitch, Moody's (P-1) or S&P's (A-1)

    1. **Long Term Rating**- A (single A category) or equivalent from Fitch, Moody's or S&P's.
    2. **Viability / Financial Strength** – bb+ (Fitch / Moody's only)
       Note: Individual ratings previously supplied by Fitch have changed to a wider viability rating
    3. **Support – 3 (Fitch only)**

- **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 Authority'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** (e.g. Debt Management Account Deposit Facility (DMADF))
- **Local Authorities**
- **Money Market Funds –** "AAA" rated by Fitch, Moody's and S&P

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

41. **Use of additional information other than credit ratings** – Additional requirements under the Code require the Authority to supplement credit rating information. Whilst the above criteria relies 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 from the agreed pool of counterparties. This additional market information (for example negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

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

43.

	Fitch (or equivalent)	Money Limit (group)	Time Limit
Banks/Building Societies 1 - Upper Limit	*F1+ (S/T)* *AA- (L/T)*	£10m	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 Authority's banker		£10m	1yr
Money Market Funds	AAA	£10m	1yr
Other Institution Limits e.g. DMADF, Local Authorities		£10m	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 £1m (increases amount to £11m) can be invested with Barclays Bank for a maximum of 5 days*

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

45. 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 Authority's liquidity requirements are safeguarded. This will also be limited by the longer term investment limits.

46. The list of counterparties 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

47. **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).

48. **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2013. Bank Rate forecasts for financial year ends (March) are:

    - 2011/ 2012 0.50%
    - 2012/ 2013 0.50%
    - 2013/ 2014 1.25%
    - 2014/ 2015 2.50%

    There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

49. There is an operational difficulty arising from the banking crisis. There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

50. The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, 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

51. **Total principal funds invested for greater than 364 days**
    These limits are set with regard to the Authority'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	**2012/13**	**2013/14**	**2014/15**
Principal sums invested > 364 days	£3m	£3m	£3m

52. **Risk Benchmarking** – The Code and the CLG Investment Guidance recommends consideration and approval of security and liquidity benchmarks as well as Yield benchmarks to assess investment performance.

53. The Authority will over the next months use Sectors SLY model to benchmark investments. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of a benchmark is that officers can monitor the current and trend position and amend the operational strategy depending on any changes. An update will be given to the Resources Committee in the September monitoring report.

End of year investment report

54. At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Management report.

Policy on the use of external service providers

55. The Authority uses Sector 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 Member 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;

56. Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Authority. This service is subject to regular review.

THE FOLLOWING DOCUMENT WAS APPROVED AT THE DERBYSHIRE POLICE AUTHORITY MEETING ON 23 FEBRUARY 2012.

The Capital Prudential Indicators 2012/13 – 2014/15

Introduction

1. The Local Government Act 2003 requires the Authority to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Authority's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2014/15. Where appropriate Actual 2010/11 figures are provided for information.
2. Within this overall prudential framework there is an impact on the Authority's treasury management activity – as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 2012/13 to 2014/15 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 Capital Expenditure Plans

3. The Authority's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Authority to spend above this level will be considered 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 Authority'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 revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Authority's borrowing need.
6. The key risks to the plans are that the level of Government support has been estimated and therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. 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 2011/12 to 2015/16.

7. The Authority is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

Capital Expenditure	2010/11 Actual £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Capital Expenditure	5.557	8.804	8.383	6.255	5.755
Financed by:					
Capital receipts	0.046	0.243	0.125	1.500	1.500
Capital grants/contributions	0.799	3.391	4.629	3.155	1.745
Capital reserves	1.442	3.430	3.629	1.600	2.510
Revenue Contributions	0.345	1.740	0	0	0
Net financing need for the year	**2.925**	**0**	**0**	**0**	**0**

The Authority's Borrowing Need (the Capital Financing Requirement)

8. The second prudential indicator is the Authority's 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 Authority's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

9. Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes. The Authority currently has £14.8m of such schemes within the CFR.

10. The Authority is asked to approve the CFR projections below:

	2010/11 Actual £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Capital Financing Requirement					
CFR	33.844	32.542	31.466	30.625	29.268
Total CFR	**33.844**	**32.542**	**31.466**	**30.625**	**29.268**
Movement in CFR	**2.063**	**(1.302)**	**(1.076)**	**(0.841)**	**(1.357)**
Movement in CFR represented by					
Net financing need for the year (above)	2.925	0.000	0.000	0.000	0.000
Less MRP/VRP and other financing movements	0.862	1.302	1.076	0.841	1.357
Movement in CFR	**2.063**	**(1.302)**	**(1.076)**	**(0.841)**	**(1.357)**

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

11. The Authority 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).

12. CLG Regulations have been issued which require full Council (or closest equivalent) 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 Authority is recommended to approve the following MRP Statement.

13. 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, 4% of the opening balance (Option 2).

14. 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 Authority has only used unsupported borrowing for the CCMC, which has an asset life of 50 years.

15. 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.

16. The intended Capital programme reflects no new borrowing from 2011/12 to 2015/16.

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

17. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions 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	2010/11 Actual £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Fund balances	3.300	3.300	3.300	3.300	3.300
Capital receipts unapplied	0	0	0	0	0
Earmarked reserves	31.531	33.831	32.262	31.254	26.367
Provisions	1.907	1.000	1.000	1.000	1.000
Unapplied Capital Grants	6.160	4.675	1.900	0.225	0
Total Core Funds	**42.898**	**42.806**	**38.462**	**35.779**	**30.667**
Working Capital*	(0.422)	(0.400)	(0.400)	(0.400)	(0.400)
Under Borrowing	(9.794)	(9.709)	(9.645)	(9.599)	(9.571)

Expected Investments at year end	**32.682**	**32.697**	**28.417**	**25.780**	**20.696**

*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.

18. The table above shows under borrowing is estimated at £9.6m in 2012/13. Whilst interest rates for investments remains low and the Authority'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. This will be kept under review.

Affordability Prudential Indicators

19. 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 Authority's overall finances. The Authority is asked to approve the following indicators:

20. **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (net of investment income) against the net revenue stream. The indicator includes the cost of capital for PFI schemes.

	2010/11 Actual £m	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
Cost of Capital (1)	2.580	2.918	2.622	2.345	2.769
Investment Income (2)	(0.311)	(0.400)	(0.410)	(0.410)	(0.410)
Financing Costs(1)-(2)	2.269	2.518	2.212	1.935	2.359
Net Revenue Stream based on frozen precept	176.15	171.664	165.739	165.710	165.840
Percentage	1.29%	1.47%	1.33%	1.17%	1.42%
Net Revenue Stream based on 3.99% precept increase			166.282	167.961	168.167
Percentage			1.33%	1.15%	1.40%

Note: 2012/13 Net Revenue Stream based has been calculated based on two possible precept increases:

- **on a frozen Police Precept for 2012/13 and 2.5% increase thereafter.**
- **on a 3.99% Police Precept Increase in 2012/13 and 2.5% increase thereafter,**

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

years funding.

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

22. Financing costs still represent a relatively small proportion of the Authorities net revenue stream.

23. **Estimates of 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 Authority's 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.

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

Police Precept – Band D	Proposed Budget 2011/12 £	Forward Projection 2012/13 £	Forward Projection 2013/14 £	Forward Projection 2014/15 £
(i) Existing Commitments	3.30	3.14	3.00	2.86
(ii) Above plus SCE	3.30	3.14	3.00	2.86
(iii) Above plus unsupported borrowing	3.30	3.14	3.00	2.86
(iv)Difference between (iii) and (i)	0.00	0.00	0.00	0.00

Notes

- Changes to RCCO have been excluded.

25. As no new borrowing is intended from 2011/12 there is no incremental impact of capital investment decisions.

THE FOLLOWING DOCUMENT WAS APPROVED AT THE DERBYSHIRE POLICE AUTHORITY MEETING ON 23 FEBRUARY 2012.

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

The CLG issued Investment Guidance in 2010, and this forms the structure of the Authorities 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 Authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Authority adopted the Code in February 2011 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 Authority 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 Authority 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 Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is shown in paragraph 42 of **Annex B.**

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The Authority is required to look at non-specified investments in more detail. It 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 Authority should approve categories on an annual basis
- advice should be provided by the Treasurer to the Police Authority
- 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 two years duration with counter-parties on the authority'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 Authority'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 Authority's surpluses are of a temporary nature, others, for example 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 this happening.

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Authority receives credit rating information from Treasury Management Advisors on a daily basis, 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 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 committee.

SECTOR

Current Counterparty Report for
Derbyshire Police Authority (LCD) 12/12 (23/2/12)

Report run on: 06/02/2012 14:46:16

List of Approved Counterparties for Lending

	Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
	S. Term Outlook	L. Term	Viab.	Support	S. Term Outlook	L. Term	Fin.Stgth	S. Term Outlook	L. Term	Time	Money
UK BANKS											
United Kingdom	**F1+** **STA**	**AAA**			 **STA**	**Aaa**		**A-1+** **STA**	**AAA**		
CREDIT SUISSE GROUP											
Credit Suisse First Boston International	F1+	AA-		1	P-1 NEG	Aa1 (N)		A-1 NEG (D)	A+	364 DAYS	£6m
HSBC GROUP											
HSBC Bank plc	F1+ STA	AA	aa-	1	P-1 NEG	Aa2	C+	A-1+ STA	AA- (D)	2 YEARS	£10m
LLOYDS BANKING GROUP											
Bank of Scotland Plc	F1 (D) STA	A (D)		1	P-1 NEG(m)	A1 (D.N)	D+	A-1 STA	A (D)	1 YEARS	£10M (Part Nat'd)
Lloyds TSB Bank	F1 (D) STA	A (D)	bbb	1	P-1 NEG(m)	A1 (D.N)	C- (N)	A-1 STA	A (D)	1 YEARS	£10M (Part Nat'd)
ROYAL BANK OF SCOTLAND GROUP											
National Westminster Bank	F1 (D) STA	A (D)		1	P-1 NEG(m) (D)	A2 (D)	C-	A-1 STA	A (D)	1 YEARS	£10M (Part Nat'd)
Royal Bank of Scotland	F1 (D) STA	A (D)	bbb	1	P-1 NEG(m) (D)	A2 (D)	C-	A-1 STA	A (D)	1 YEARS	£10M (Part Nat'd)
SUMITOMO MITSUI CORPORATION GROUP											
Sumitomo Mitsui Banking Corporation Europe Limited	F1 STA	A		1	P-1 STA (U)	Aa3 (D)	C	A-1 NEG (D)	A+	364 DAYS	£6m
Bank of New York Mellon (International) Ltd	F1+ STA	AA-		1	P-1 NEG(m)	Aaa	B+	 NEG	AA-	2 YEARS	£10m

SECTOR

Current Counterparty Report for
Derbyshire Police Authority (LCD) 12/12 (23/2/12)

Report run on: 06/02/2012 14:46:16

List of Approved Counterparties for Lending

		Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
		S. Term Outlook	L. Term	Viab.	Support	S. Term Outlook	L. Term	Fin.Stgth	S. Term Outlook	L. Term	Time	Money
UK BANKS												
United Kingdom		**F1+** **STA**	**AAA**			 **STA**	**Aaa**		**A-1+** **STA**	**AAA**		
	Barclays Bank	F1 (D) STA (D)	A (D)	a	1	P-1 NEG(m) (D)	Aa3	C	A-1 (D) STA (U)	A+ (D)	1 YEARS	£10m (Banker)
	DB UK Bank Limited					P-1 STA	A2	C+			364 DAYS	£6m
	MBNA Europe Bank	F1 (D) STA	A (D)		1						364 DAYS	£6m
	Schroders Plc	F1 STA	A+						A-1 POS (U)	A	364 DAYS	£6m
	Standard Chartered Bank	F1+ STA	AA-	aa-	1	P-1 STA	A1	B-	A-1+ (U) STA	AA- (U)	364 DAYS	£6m
	UBS Ltd	F1 (D) STA	A (D)		1	P-1 NEG	Aa3 (N)		A-1 NEG (D)	A (D)	364 DAYS	£6m
UK BUILDING SOCIETIES												
United Kingdom		**F1+** **STA**	**AAA**			 **STA**	**Aaa**		**A-1+** **STA**	**AAA**		
1	Nationwide Building Society	F1 (D) NEG	A+ (D)	a+	1	P-1 STA	A2 (D)	C (U)	A-1 STA (U)	A+	364 DAYS	£6m

Current Counterparty Report for Derbyshire Police Authority (LCD) 12/12 (23/2/12)

SECTOR

Report run on: 06/02/2012 14:46:16

List of Approved Counterparties for Lending

	Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
	S. Term Outlook	L. Term	Viab.	Support	S. Term Outlook	L. Term	Fin.Stgth	S. Term Outlook	L. Term	Time	Money
OTHERS											
United Kingdom	**F1+ STA**	**AAA**			**STA**	**Aaa**		**A-1+ STA**	**AAA**		
DMO										6 MONTHS	£10m
Local Authorities										1 YEARS	£10m
Money Market Funds										1 YEARS	£10m

Key

Upgraded	(U)	Positive Rating Watch	(P)	Upgraded Positive Rating Watch	(U.P)	Upgraded Negative Rating Watch	(U.N)
Downgraded	(D)	Negative Rating Watch	(N)	Downgraded Positive Rating Watch	(D.P)	Downgraded Negative Rating Watch	(D.N)

THE FOLLOWING DOCUMENT WAS APPROVED AT THE DERBYSHIRE POLICE AUTHORITY MEETING ON 23 FEBRUARY 2012.

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.

<u>Definition – Financial Strength (Moody's only)</u>

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.