

**THE OFFICE OF POLICE AND CRIME COMMISSIONER  
FOR DERBYSHIRE**

**DECISION RECORD**

<b>Request for PCC Decision</b>	<b>Received in OPCC Date: 22 January 2018</b>	<b>OPCC Ref: 07/2018</b>
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**PRUDENTIAL INDICATORS, MINIMUM REVENUE PROVISION, TREASURY  
MANAGEMENT AND INVESTMENT STRATEGY**

**Executive Summary:**

The report was presented to approve the Capital Prudential Indicators for 2018/19 to 2020/21 (incorporating the Minimum Revenue Provision Policy), the Treasury Management Strategy Statement 2018/21 and the Investment Strategy 2018/21 as detailed within the report and the associated appendices.

**Decision**

- i. The Prudential Indicators and Limits for 2018/19 to 2020/21 contained within Appendix A of the report were approved.
- ii. The Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the PCC's policy on MRP was approved.
- iii. The Treasury Management Strategy 2018/19 to 2020/21 and the treasury Prudential Indicators contained within Appendix B wa approved.
- iv. The Authorised Limit Prudential Indicator was approved.
- v. The Investment Strategy 2018/21 contained in the treasury management strategy (Appendix B), the counterparties in Appendix B2 and detailed criteria included in Appendix B3 was approved.
- vi. That 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.

None

The above request has my approval.

**Signature**

Hardyal Dhindsa

**Date 22 January 2018**

**PUBLICATION SCHEME CONSIDERATIONS**

**Is the related Section B report to be published Yes**

The report contains commercially sensitive information.

**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 Andrew Dale

Date 22 January 2018

**STRATEGIC GOVERNANCE BOARD**

**22 JANUARY 2018**

**JOINT REPORT OF CHIEF CONSTABLE AND CHIEF FINANCE OFFICER**

**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 2018/19 to 2020/21 (incorporating the Minimum Revenue Provision Policy), the Treasury Management Strategy Statement 2018/21 and the Investment Strategy 2018/21.

**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.

**3. RECOMMENDATIONS**

- 3.1 That the Prudential Indicators and Limits for 2018/19 to 2020/21 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 2018/19 to 2020/21 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 2018/21 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: Andrew Dale External telephone number: 0300 122 6000 Email address: andrew.dale.16973@derbyshire.pnn.police.uk		

**ATTACHMENTS**

Appendix A The Capital Prudential Indicators 2018/19-2020/21

Appendix B Treasury Management Strategy 2018/19-2020/21

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

Appendix B2 Approved Counterparties (based on credit ratings as at December  
2018)

Appendix B3 Detailed Criteria and Credit Ratings

## **The Capital Prudential Indicators 2018/19 – 2020/21**

### **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 2020/21. Where appropriate the 2016/17 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 2018/19 to 2020/21 is included as Appendix 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 the resources available are insufficient any residual capital expenditure will add to the Commissioner's borrowing need.
6. As described in the report on the proposed Capital Programme for 2018/22 presented to this meeting, capital grant allocations have been cut back drastically during the recent period of austerity and this trend has continued for 2018/19. At £0.6m the force's capital grant

allocation for next year is very small in the context of the expenditure planned. Likewise although some capital receipts are anticipated over the period, these are fairly limited as well.

7. The potential availability of reserves to help offset the borrowing need needs to be assessed in the context of the medium-term revenue projections up to 2021/22 and the likely implications for Reserves as a whole.
8. As set out elsewhere in papers for this meeting, it is anticipated that by 31 March 2018 overall reserve balances will be at their lowest level since 2005. This is mainly a result of the significant use of reserves to support capital investment over the last 3 years, including £10m towards the Constabulary's share of the cost of the new Joint Police and Fire Headquarters. By the end of this financial year, the use of reserves for investment purposes since 2015 will have reached £22m.
9. In addition, the current year has seen an unusual level of pressure on the revenue budget, as a result of a major policing operation and additional pay awards. It is therefore anticipated that an overspend as high as £1.8m will need to be covered from the Operational Funding and Investment Reserve.
10. Going forward, whilst the settlement for 2018/19 announced in December was more positive than expected, the force needs to utilise the flexibility it provides to address priority areas in its revenue budget. These are set out in the Precept report. It is worth noting that a number of the areas being funded are IT-related and the expenditure is similar in nature to capital investment. However, the proposed delivery model means that the costs will need to be incurred within the revenue budget.
11. Therefore, given the above, it is assessed that it would not be prudent at this stage to release any further resources from the Operational Funding and Investment Reserve to support the proposed capital programme.
12. 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.

<b>Capital Expenditure</b>	<b>2016/17 Actual £m</b>	<b>2017/18 Revised £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Capital Expenditure	18.051	11.809	12.783	14.674	8.674
<b>Financed by:</b>					
Capital receipts	0.914	1.280	0.914	0.570	0.000
Capital grants/contributions	6.491	1.525	5.040	0.821	0.821
Capital reserves	8.294	7.269	0	0	0
Revenue Contributions	2.352	1.735	3.092	3.092	3.092
<b>Net financing need for the year</b>	<b>0</b>	<b>0</b>	<b>3.737</b>	<b>10.191</b>	<b>4.761</b>



## The Commissioner's Borrowing Need (the Capital Financing Requirement)

13. 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. Based on the current Capital Programme, external borrowing will be required in 2018/19, 2019/20 and 2020/21.
14. 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.
15. 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 £11.1m of such schemes within the CFR.
16. The Commissioner is asked to approve the CFR projections below:

	2016/17 Actual £m	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
<b>Capital Financing Requirement</b>					
<b>Total CFR</b>	<b>26.260</b>	<b>24.883</b>	<b>27.265</b>	<b>36.269</b>	<b>39.347</b>
<b>Movement in CFR</b>	<b>(1.424)</b>	<b>(1.377)</b>	<b>2.382</b>	<b>9.003</b>	<b>3.078</b>
<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	0.000	0.000	3.737	10.191	4.761
Less MRP/VRP and other financing movements	1.424	1.377	1.355	1.188	1.683
<b>Movement in CFR</b>	<b>(1.424)</b>	<b>(1.377)</b>	<b>2.382</b>	<b>9.003</b>	<b>3.078</b>

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

### Minimum Revenue Provision (MRP) policy statement

17. 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). He is also allowed to make additional voluntary payments (VRP).
18. CLG Regulations 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.
19. For capital expenditure incurred before 1 April 2008 or which in the future is Supported Capital Expenditure, the MRP policy has been changed from previous years. The force has reviewed its estates plan

as it was felt that a more prudent approach could be taken, the MRP Policy has been changed to:

- **Based on CFR** – MRP will be based on the CFR, being 2% straight line basis of the opening balance on the CFR for that year

Previously this was based on a 4% reducing balance.

20. 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

The only current unsupported borrowing is that used to fund the Centralised Contact Management Centre, which has an asset life of 50 years. The Constabulary's plans indicate that further unsupported borrowing will be needed in 2018/19 to 2020/21. It is assessed that this borrowing will be against assets with an estimated life of 25 years.

21. 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.

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

22. 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	2016/17 Actual £m	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Fund balances	4.000	4.000	4.000	4.000	4.000
Capital receipts unapplied	0	0	0	0	0
Earmarked reserves	27.219	17.709	14.118	13.465	12.775
Earmarked reserves – regional	0.917	0.500	0.500	0.500	0.500
Provisions	1.234	1.000	1.000	1.000	1.000
Unapplied Capital Grants	4.775	3.915	4.079	-	-
<b>Total Core Funds</b>	<b>38.145</b>	<b>27.124</b>	<b>23.697</b>	<b>18.965</b>	<b>18.275</b>
Working Capital*	(8.415)	(3.000)	(3.000)	(3.000)	(3.000)
Under Borrowing	(9.672)	(9.709)	(9.932)	(10.036)	(10.079)
<b>Expected Investments at year end</b>	<b>20.058</b>	<b>14.415</b>	<b>10.765</b>	<b>5.929</b>	<b>5.196</b>

\*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.

23. The table above shows that under borrowing is estimated at £10m in 2018/19.
24. Whilst interest rates available on 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 that although we are planning to take out additional external borrowing for new investment, we will not replace our current internal borrowing at the present time. If however we need to use more of our internal resources than currently forecast, we may eventually reach the point where we need to borrow to replenish the resources that we have used temporarily to fund our previous capital programme. This will be kept under review. The table above suggests we will not need to do this until 2019/20 at the earliest due to the underlying cash position.

### Affordability Prudential Indicators

25. 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.
26. **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.

	2016/17 Actual £m	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Cost of Capital (1)	2.689	2.542	2.471	2.360	2.935
Investment Income (2)	(0.145)	(0.076)	(0.095)	(0.095)	(0.095)
Financing Costs(1)-(2)	2.544	2.466	2.376	2.265	2.840
Net Revenue Stream based on 6.64% Council Tax increase	162.792	163.247	167.656	172.331	174.612
Percentage	1.56%	1.51%	1.42%	1.31%	1.63%

27. 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. The base rate, however, increased from November 2017 so investment income rises in 2018/19.

28. Financing costs have reduced in 2018/19 and 2019/20 due to the change in the MRP policy and increased investment income. By 2020/21 the full effect of the borrowing in previous years increases the financing costs, however, the costs continue to represent a relatively small proportion of the Commissioner's net revenue stream.

29. **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.

30.

<b>Police Precept – Band D</b>	<b>Revised Budget 2017/18 £</b>	<b>Forward Projection 2018/19 £</b>	<b>Forward Projection 2019/20 £</b>	<b>Forward Projection 2020/21 £</b>
<b>(i) Existing Commitments</b>	2.51	1.76	1.64	1.53
<b>(ii) Above plus SCE</b>	2.51	1.76	1.64	1.53
<b>(iii) Above plus unsupported borrowing</b>	2.51	1.91	2.80	4.27
<b>(iv) Difference between (iii) and (i)</b>	0.00	0.16	1.16	2.75

Notes

- Changes to RCCO have been excluded.

31. 2018/19 to 2020/21 reflects the costs of unsupported borrowing anticipated for those years. It is considered that the level of capital expenditure and associated borrowing is affordable and prudent.

## Treasury Management Strategy 2018/19 – 2020/21

1. The treasury management service is an important part of the overall financial management of the Commissioner's affairs. The prudential indicators in Appendix 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 2018/19 – 2020/21

7. The Commissioner's treasury portfolio position at 31 March 2017, with forward projections to 31 March 2021 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.

	2016/17 Actual £m	2017/18 Revised £m	2018/19 Estimated £m	2019/20 Estimated £m	2020/21 Estimated £m
<b>External Debt</b>					
Debt at 1 April	6.011	5.465	4.920	8.037	15.859
Expected change in debt	(0.546)	(0.545)	3.117	7.822	2.722
Other Long Term Liabilities	11.123	10.254	9.214	8.489	7.618
<b>Gross Debt at 31 March</b>	<b>16.588</b>	<b>15.174</b>	<b>17.251</b>	<b>24.348</b>	<b>26.199</b>
CFR	26.260	24.883	27.265	34.768	36.847
Under/ (over) borrowing	9.672	9.709	10.014	10.420	10.648

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 2017/18 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 Chief Finance Officer 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).

<b>Operational Boundary</b>	<b>2017/18 Revised £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Borrowing	7.3	9.1	16.9	19.6
Other long term liabilities	10.3	9.2	8.5	7.6
<b>Total</b>	<b>17.6</b>	<b>18.3</b>	<b>25.4</b>	<b>27.2</b>

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:

<b>Authorised limit</b>	<b>2017/18 Revised £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>	<b>2020/21 Estimate £m</b>
Borrowing	13.4	16.6	24.4	27.1
Other long term liabilities	10.3	9.2	8.5	7.6
<b>Total</b>	<b>23.7</b>	<b>25.8</b>	<b>32.9</b>	<b>34.7</b>

15. The figures for the proposed authorised limit for 2018/19 take into account:

(a) The estimated amount of outstanding borrowing approvals on capital expenditure at 31 March 2018 (£4.720m) plus outstanding borrowing of £0.200m regarding transferred debt from Derbyshire County Council and Derby City Council which arose upon reorganisation.

(b) Any new external borrowing for capital schemes during 2018/19 (external borrowing of £3.737m is planned in this year) less the estimated amount for debt redemption within 2018/19 loan charges (£0.620m).

- (c) The amount of any short-term borrowing pending receipt of grant on capital schemes. The estimated maximum figure for 2018/19 is £0.5m.
- (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 2018/19), it is suggested a figure of £8m 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 2018/19 includes £9.214m for PFI Liabilities.

16. Based on the above, it is proposed that the authorised limit for outstanding debt should be set at £25.8m for 2018/19. Proposed limits for future years have been calculated in a similar manner taking into account the anticipated future borrowing requirements.

### Expected Movement in Interest Rates

17. The Commissioner has appointed Link Asset Services (previously known as Capita) 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
Dec 2017	0.50	0.50	0.70	1.50	2.80	2.50
Mar 2018	0.50	0.50	0.80	1.60	2.90	2.60
June 2018	0.50	0.50	0.80	1.60	3.00	2.70
Sept 2018	0.50	0.50	0.90	1.70	3.00	2.80
Dec 2018	0.75	0.75	1.00	1.80	3.10	2.90
Mar 2019	0.75	0.75	1.00	1.80	3.10	2.90
June 2019	0.75	0.75	1.10	1.90	3.20	3.00
Sept 2019	0.75	0.75	1.10	1.90	3.20	3.00
Dec 2019	1.00	1.00	1.30	2.00	3.30	3.10
Mar 2020	1.00	1.00	1.30	2.10	3.40	3.20
June 2020	1.00	1.00	1.40	2.10	3.50	3.30
Sept 2020	1.25	1.25	1.50	2.20	3.50	3.30
Dec 2020	1.25	1.25	1.50	2.30	3.60	3.40
Mar 2021	1.25	1.25	1.60	2.30	3.60	3.40

**UK.** The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to



end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a

major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

### **Borrowing Strategy 2018/19 – 2020/21**

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 still of concern
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, in particular to address the existing and emerging policing risk gap as well as funding required for new capital projects.
20. Against this background and the risks within the economic forecast caution will be adopted with the treasury management operations in 2018/19. 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 external borrowing will take place during 2018/19 to 2020/21.
22. 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 source of borrowing 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 force's long-term plans in order for it to qualify for this discount.

24. **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.
25. **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**

26. 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:

27. **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:

	2018/19 Upper	2019/20 Upper	2020/21 Upper
<b>Borrowing</b>			
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	30%	30%	30%
<b>Investments</b>			
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.

## 28. 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 is desirable.

Currently most of the Commissioner's loan debt is repayable over a period of 25 years. One loan is repayable on maturity in 2025/26.

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

<b>Maturity Structure of fixed interest rate borrowing</b>			
		<b>2018/19</b>	<b>Currently</b>
Under 12 months	Lower-Upper	0%-10%	9.0%
12 months to 2 years	Lower-Upper	0%-10%	9.0%
2 years to 5 years	Lower-Upper	0%-30%	26.4%
5 years to 10 years	Lower-Upper	0%-45%	41.6%
10 years and above	Lower-Upper	10%-90%	14.0%

## Investment Strategy 2018/19 – 2020/21

29. **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.
30. 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
31. 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.
32. 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.
33. 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.

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

### **Creditworthiness policy**

35. 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.

36. The Chief Finance Officer 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.

37. Credit rating information is supplied by Link 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 bank - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or it meets 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):

	<b>Fitch (or equivalent)</b>	<b>Money Limit (group)</b>	<b>Time Limit</b>
Banks/Building Societies 1 - Upper Limit	<i>F1+ (S/T)</i> <i>AA- (L/T)</i>	£10m (£3m if > 365 days)	2yrs
Banks/Building Societies 1 – Middle Limit	<i>F1 (S/T)</i> <i>A- (L/T)</i>	£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		£30m (£6m per authority)	1yr

**Note** – In addition to the above on a temporary basis and subject to approval by the Chief Finance Officer 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 stay flat at 0.50% until quarter 4 of 2018 and not rise above 1.25% by quarter 1 of 2021. Bank Rate forecasts for financial year ends (March) are:
  - 2017/18 0.50%
  - 2018/19 0.75%
  - 2019/20 1.00%
  - 2020/21 1.25%

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 Chief Finance Officer 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 365 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:

<b>Maximum principal sums invested &gt; 364 &amp; 365 days</b>			
<b>£m</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Principal sums invested > 364 & 365 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 Link 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 Link 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 Treasury 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 41 of Appendix 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 Treasury and any changes will be reported to a later Strategic Governance Board.

# List of Approved Counterparties for Lending for Police & Crime Commissioner for Derbyshire.

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

Counterparty	Fitch Ratings		Moody's 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												
<b>United Kingdom</b>	NO	AA			SB	Aa2						15.24						
AAA rated and Government backed securities																		
Debt Management Office								Y - 60 mths	Y - 60 mths			Not Applicable	35 Million	6 Months	(M)			
<b>Banks</b>																		
Bank of Scotland PLC	SB	A+	F1		SB	Aa3	P-1	PO	A	A-1	R - 6 mths	O - 12 mths	38.87	●	O - 12 mths	6 Million	1 Years	
Barclays Bank PLC	PW	A	F1	NO	A1		P-1	SB	A	A-1	R - 6 mths	R - 6 mths	42.22	●	R - 6 mths	10 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 Million	1 Years	
Goldman Sachs International Bank	SB	A	F1		SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	49.91	●	R - 6 mths	6 Million	1 Years	
HSBC Bank PLC	SB	AA-	F1+	NO	Aa3		P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	19.71	●	O - 12 mths	10 Million	1 Years	£3 Mln/2 Yrs
Lloyds Bank Plc	SB	A+	F1		SB	Aa3	P-1	PO	A	A-1	R - 6 mths	O - 12 mths	33.76	●	O - 12 mths	10 Million	1 Years	(M)
Santander UK PLC	PW	A	F1		SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths	6 Million	1 Years	
Standard Chartered Bank	SB	A+	F1		SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	39.27	●	R - 6 mths	6 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	50.22	●	R - 6 mths	6 Million	1 Years	
UBS Ltd.	SB	AA-	F1+		SB	A1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	19.96	●	O - 12 mths	6 Million	1 Years	
<b>Building Society</b>																		
Coventry Building Society	SB	A	F1		SB	A2	P-1				R - 6 mths	R - 6 mths			R - 6 mths	6 Million	1 Years	
Nationwide Building Society	SB	A+	F1		SB	Aa3	P-1	SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths	6 Million	1 Years	
<b>Nationalised and Part Nationalised Banks</b>																		
National Westminster Bank PLC	PW	BBB+	F2	PO	A2		P-1	PO	BBB+	A-2	B - 12 mths	B - 12 mths			Not Applicable	10 Million	1 Years	(M)
The Royal Bank of Scotland Plc	SB	BBB+	F2	NO	A2		P-1	SB	BBB+	A-2	B - 12 mths	B - 12 mths	48.20	●	Not Applicable	10 Million	1 Years	(M)

## Advisory notes:

Please note that the Link Asset Services suggested methodology applies a minimum sovereign criteria of "AA-". In instances where individual client criteria allows for the potential use of entities from lower rated sovereigns, suggested duration columns in these lists may show a "colour", but this will purely be based on the ratings / CDS of the individual entity. It will not take account of the sovereign rating, which alone may provide a reason for it not being included within the Link Asset Services suggested list of counterparties.

Please note that CDS values are as at the close of business from the previous day.

## 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.