

Wiltshire Council

Cabinet

12 June 2018

Subject: Treasury Management Outturn Report 2017/18

Cabinet member: Councillor Philip Whitehead, Cabinet Member for Finance, Procurement, IT and Operational Assets

Key Decision: No

Executive Summary

The Council has adopted a Treasury Management Strategy and an Annual Investment Strategy for 2017/18 at its meeting on 7 February 2017.

The Treasury Management Strategy requires an Annual Outturn Report reviewing the Treasury Management activities for the year. This report covers the period from 1 April 2017 to 31 March 2018.

The Council maintained its policy of not taking out any new external borrowing (loans) during 2017/18. Instead, the Council used internal funds to finance its capital expenditure. Overall, the Council is under borrowed by £211.4 million. This has avoided the council having to pay out external interest costs in the order of £4.3 million. This under borrowed position is factored into the revenue budget.

Against budget, there is a net underspend in respect of interest receivable/payable of £0.244 million.

The Council did not breach any of its performance indicators during 2017/18.

Proposals

Cabinet is requested to:

- a) Note that the contents of this report are in line with the Treasury Management Strategy 2017/18.
- b) Approve an amendment to the Treasury Management Strategy 2018/19, to include a new class of alternative investments to the available list of non-specified investments (as explained in paragraph 27 of this report).
- c) Approve an amendment to the Minimum Revenue Provision Policy 2017/18, to allow for an alternative method of calculation, where appropriate (as explained in paragraph 28 of this report).

Reasons for Proposals

To give members an opportunity to consider the performance of the Council against the parameters set out in the approved Treasury Management Strategy for 2017/18.

To agree to a revision to the Treasury Management Strategy 2018/19 and the Minimum Revenue Provision Policy 2017/18 in order to continue to comply with statutory guidance and reflect best practice.

Ian Duncan

Interim Director of Finance and Procurement

Wiltshire Council

Cabinet

12 June 2018

Subject: Treasury Management Outturn Report 2017/18

Cabinet member: Councillor Philip Whitehead, Cabinet Member for Finance, Procurement, IT and Operational Assets

Key Decision: No

PURPOSE OF REPORT

1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
2. During 2017/18 the minimum reporting requirements were that the Council should receive the following reports,
 - an annual treasury strategy in advance of the year (07/02/2017)
 - a mid-year treasury update report (12/12/2017)
 - an annual review following the end of the year describing the activity compared to the strategy (this report)
3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
4. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports before they were reported to full Council.

Economic Background and Interest Rate Forecast

5. During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. In November 2017 the Monetary Policy Committee (MPC) raised the bank rate, for the first time in ten years, from 0.25% to 0.50%.
6. In February 2018, the MPC gave forward guidance that they are likely to increase Bank Rate at a slightly faster rate than had previously been expected. Bank rate is likely to rise only twice more in the next three years to reach 1.00% by 2020.

Overall Treasury Position

7. At the beginning and the end of 2017/18 the Council's treasury position was as follows,

	01/04/2017			31/03/2018		
	Principal £m	Rate/ Return %	Average Life Years	Principal £m	Rate/ Return %	Average Life Years
Total Debt	337.9	3.77	29.83	327.9	3.77	30.52
Capital Financing Requirement (General Fund)	414.0			416.0		
Capital Financing Requirement (Housing Revenue Account)	123.3			123.3		
Total Capital Financing Requirement	537.3			539.3		
Over/(under) borrowing	(199.4)			(211.4)		
Total Investments	57.6	0.40	0.32	63.7	0.54	0.39
Net Debt	280.3			264.2		

Treasury Management Strategy 2017/18

8. Continued uncertainty in the economy promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
9. During 2017/18 longer term PWLB borrowing rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year
10. The treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.
11. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with external loan debt. This internal borrowing is funded by the Council's own funds, such as reserves, balances and working capital. This strategy is prudent, as investment returns are low, and external borrowing rates are comparatively high, thus creating a high cost of carry for any borrowing taken up. Internal borrowing means there is less cash to invest, so counterparty risk is also reduced.
12. The movement in the Council's under borrowing position is summarised in the following table:

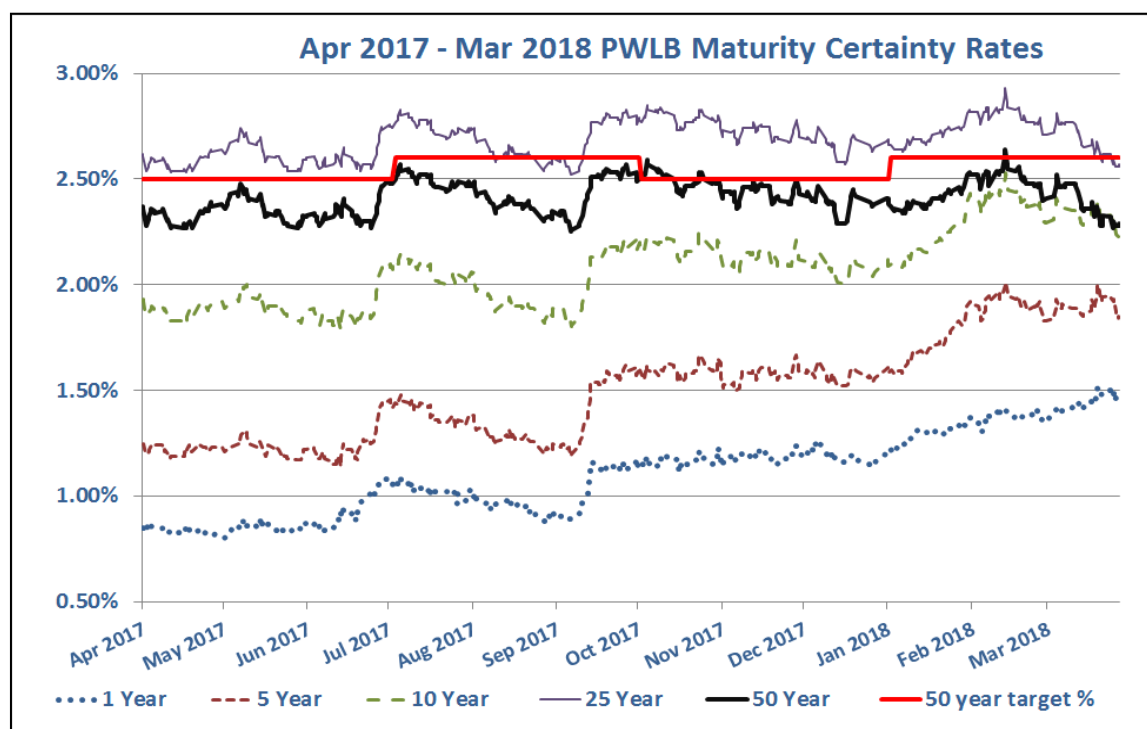
Borrowing Position 2017/18	£m
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Capital expenditure in year funded by borrowing	13.4
Contribution from revenue account (MRP)	(11.4)
Loans repaid during the year	10.0
New loans undertaken in the year	0.0
Sub-total: Change in borrowing position in year	12.0
Under borrowed position 01/04/2017	199.4
Under borrowed position 31/03/2018	211.4

13. To illustrate the benefit of having an under borrowed position: if the Council was to externally borrow £211.4 million (over 25 years at current PWLB rate of 2.56%), this would result in external annual interest costs in the order of £5.4 million. The interest foregone on the use of internal funds would be £1.1 million (based on current average interest rate of 0.54% as at 31/03/18. This produces a benefit of £4.3 million
14. Internal borrowing will continue to be monitored, and projections carried out to indicate where any adverse movements are expected that could jeopardise the Council's cashflow position. It may be necessary to replace internal borrowing with external borrowing, but this would be undertaken at the most advantageous time possible.

Borrowing Rates

15. As depicted in the graph below, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February/March.
16. The graph for PWLB rates shows a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

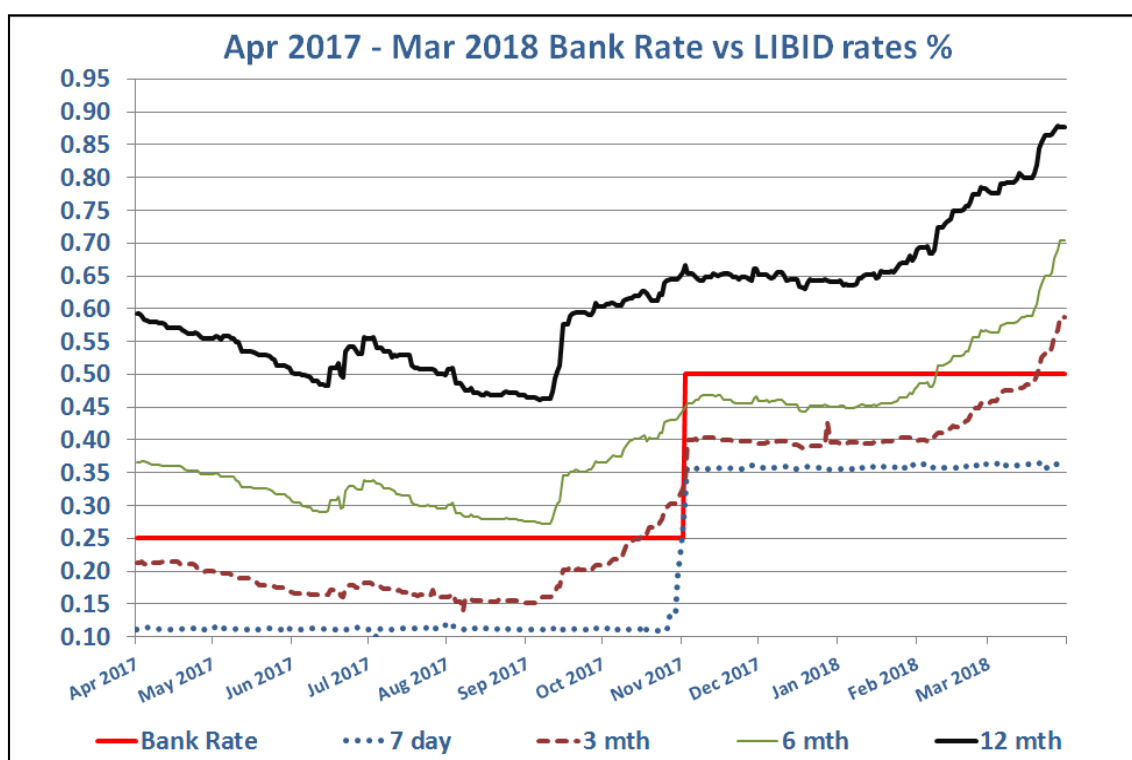


Borrowing Outturn

17. Due to investment concerns, both counterparty risk and low investment returns, no new borrowing was undertaken during the quarter.
18. No debt rescheduling was undertaken during the quarter, as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
19. On 21/03/2018 the Council repaid a PWLB loan for £10 million (interest rate of 4.02%).
20. A summary of the Council's borrowing position is detailed at Appendix 2.

Investment Rates

21. Investment Rates for three months and longer have been on a rising trend during the second half of the year, in the expectation of Bank Rate increasing, and reached a peak at the end of March 2018.



Investment Outturn

22. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
23. The Council maintained an average balance of £113.40 million of internally managed funds. The internally managed funds earned an average rate of 0.38%. The comparable performance indicator is the average 3 month LIBID rate, which was 0.29%.
24. The Council's total interest received from investments for 2017/18 was £0.368 million. The Council's budgeted investment return for 2017/18 was £0.948 million, therefore forecast investment income (interest) for the year to date is £0.580 million

underachieved against budget. This is a historical budget and will be fully reviewed in the update of the Medium Term Financial Strategy.

25. The position on interest income must be compared with external interest costs payable. The Council paid external interest costs of £12.720 million against a budget of £13.544 million. This is £0.824 million underspent against budget. The net underspend on interest receivable/payable is £0.244 million.
26. A summary of the Council's investment position as at 31 March 2018 is detailed at Appendix 3.

Treasury Management Strategy Statement 2018/19

27. The Treasury Management Strategy Statement 2018/19 was approved by the Council in February 2018. However, since that date, it is proposed that a new class of 'alternative investments' is added to the available list of non-specified investment instruments. These instruments offer increased returns in the current low interest rate environment whilst still meeting the DCLG requirements for security, liquidity and yield. This would include asset backed securities and asset backed pooled investment funds, which are secured against real assets such as green energy, timber or property. Any proposed investment of this nature would be the subject of a further report.

Minimum Revenue Provision (MRP) Policy 2017/18 and onwards

28. The Minimum Revenue Provision Policy 2017/18 was approved by the Council in February 2018. It was recommended and agreed that MRP will be provided for in accordance with existing practice on a 2% straight line basis, i.e. provision for the full repayment of debt over 50 years.
29. However, for certain investment projects it may be deemed more prudent to use the asset life annuity method in order to calculate MRP. In this case the MRP calculation will be based on the prevailing PWLB interest rate for a loan with a term equal to the estimated life of the asset.

Other Issues – Revised CIPFA Codes

30. In December 2017, CIPFA issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments, e.g. potential property investments. One recommendation was that local authorities should produce a new report to members, giving a high-level summary of the overall capital strategy, enabling members to see how the cash resources of the Council have been apportioned between treasury and non-treasury investments. Officers will report to members when the implications and impact of these new codes have been assessed.

Other Issues – Markets in Financial Instruments Directive II (MiFID II)

31. The EU set a deadline of 3 January 2018 for the introduction of regulations under MIFID (Markets in Financial Instruments Directive) II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities. This has had very little effect on Wiltshire Council, apart from completing documentation for every institution used for each investment instrument, to confirm Wiltshire Council status as a 'professional' client.

Overview & Scrutiny Engagement

32. Regular reports are taken to Overview & Scrutiny relating to the Council's financial position

Safeguarding Implications

33. None have been identified as arising directly from this report.

Public Health Implications

34. None have been identified as arising directly from this report.

Procurement Implications

35. None have been identified as arising directly from this report.

Equalities Impact of the Proposal

36. None have been identified as arising directly from this report.

Environmental and Climate Change Considerations

37. None have been identified as arising directly from this report.

Risks Assessment

38. All investments have been at fixed rates during the period. The Council's current average interest rate on long term debt is 3.77%, which compares favourably with similar rates of other UK local authorities.

39. The primary management risks to which the Council is exposed are adverse movements in interest rates and the credit risk of counterparties.

40. Investment counterparty risk is controlled by assessing and monitoring the credit risk of borrowers as authorised by the Annual Investment Strategy.

Financial Implications

41. These have been examined and are implicit throughout the report.

Legal Implications

42. None have been identified as arising directly from this report.

Proposals

43. Cabinet is requested to:

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- c) Approve an amendment to the Minimum Revenue Provision Policy 2017/18 to allow for an alternative method for calculation, where appropriate (as explained in paragraph 28 of this report).

Contact Name:

Ian Duncan (Interim Director - Finance and Procurement)

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31 May 2018

Appendices

- Appendix 1 Prudential and Treasury Indicators 2017/18
- Appendix 2 Borrowing Portfolio
- Appendix 3 Investment Portfolio

Prudential and Treasury Indicators 2017/18

During 2017/18, the Council complied with its legislative and regulatory requirements.

The key prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

	2016/17 Actual £m	2017/18 Budget £m	2017/18 Actual £m
Capital Expenditure			
General Fund	61.1	94.5	89.3
HRA	18.9	37.0	19.8
Total	80.0	131.5	109.1
Capital Financing Requirement			
General Fund	414.0		416.0
HRA	123.3		123.3
Total	537.3		539.3
Gross Borrowing	337.9		327.9
External Debt	338.1		328.1
Investments			
Longer than 1 year	0.00		0.00
Under 1 year	57.6		63.7
Total	57.6		63.7
Net Borrowing	280.3		264.2

Gross Borrowing and the CFR

To ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2017/18.

	2017/18
Authorised Limit	£558.3m
Maximum Gross Borrowing Position	£337.9m
Operational Boundary	£547.7m
Average Gross Borrowing Position	£337.6m
Financing Costs as a Proportion of Net Revenue Stream – GF	5.52%
Financing Costs as a Proportion of Net Revenue Stream - HRA	14.88%

Authorised Limit

The authorised limit is the 'affordable borrowing limit' required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table above demonstrates that during 2017/18 the Council has maintained gross borrowing within its authorised limit.

Operational Boundary

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual Financing Costs as a Proportion of 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.

	31 March 2017			31 March 2018		
	Principal £m	Rate/ Return %	Average Life Years	Principal £m	Rate/ Return %	Average Life Years
Fixed Rate Funding						
PWLB	276.9	3.64	16.73	266.9	3.62	16.32
Market	61.0	4.37	51.67	61.0	4.37	51.67
Variable Rate Funding						
PWLB	0.0			0.0		
Market	0.0			0.0		
Total Debt	337.9	3.77	29.83	327.9	3.77	30.52
Total Capital Financing Requirement	537.3			539.3		
Over/(Under) Borrowing	(199.4)			(211.4)		
Total Investments	57.6	0.40	0.32	63.7	0.54	0.39
Net Debt	280.3			264.2		

The maturity structure of the debt portfolio was as follows,

Maturity structure of fixed rate borrowing	2017/18 Authorised Limits (%)		2017/18 Actual (%)	
	Upper Limit	Lower Limit	Next Call Date	Contractual Maturity
Under 12 months	25	0	10	0
12 months to 2 years	25	0	4	4
2 years to 5 years	45	0	9	7
5 years to 10 years	75	0	16	16
10 years and above	100	0	61	73

	31 March 2017	31 March 2018
Fixed rate based on net debt	100%	100%
Variable rate based on net debt	0%	0%

Borrowing Portfolio as at 31 March 2018

Lender	Start Date	Maturity Date	Amount £m	Rate	Annual Interest £m
Public Works Loan Board (PWLB)					
PWLB	18/03/2016	18/03/2019	10.00	1.38	0.14
PWLB	28/03/2012	28/03/2019	4.81	1.76	0.08
PWLB	28/03/2012	28/03/2020	8.00	1.99	0.16
PWLB	28/03/2012	28/03/2021	4.00	2.21	0.09
PWLB	15/02/2010	01/06/2021	2.00	4.33	0.09
PWLB	28/03/2012	28/03/2022	8.00	2.4	0.19
PWLB	28/03/2012	28/03/2023	8.00	2.56	0.20
PWLB	15/02/2010	01/06/2023	2.00	4.45	0.09
PWLB	28/03/2012	28/03/2024	8.00	2.7	0.22
PWLB	15/02/2010	01/06/2024	2.00	4.49	0.09
PWLB	28/03/2012	28/03/2025	8.00	2.82	0.23
PWLB	14/08/2001	01/12/2025	0.12	4.875	0.01
PWLB	28/03/2012	28/03/2026	10.00	2.92	0.23
PWLB	15/02/2010	01/06/2026	2.00	4.54	0.09
PWLB	28/03/2012	28/03/2027	8.00	3.01	0.24
PWLB	21/08/2002	01/06/2027	4.00	4.75	0.19
PWLB	28/03/2012	28/03/2028	6.00	3.08	0.18
PWLB	29/07/1999	01/06/2028	1.00	4.75	0.05
PWLB	15/02/2010	01/06/2028	2.00	4.56	0.09
PWLB	28/03/2012	28/03/2029	7.00	3.15	0.22
PWLB	29/07/1999	01/06/2029	1.00	4.75	0.05
PWLB	28/03/2012	28/03/2030	8.00	3.21	0.26
PWLB	29/07/1999	01/06/2030	1.00	4.75	0.05
PWLB	20/05/2005	01/06/2030	2.00	4.45	0.09
PWLB	05/12/2005	18/03/2031	5.00	4.25	0.21
PWLB	28/03/2012	28/03/2031	2.00	3.26	0.07
PWLB	29/07/1999	01/06/2031	1.00	4.75	0.05
PWLB	20/05/2005	01/06/2031	2.00	4.45	0.09
PWLB	21/11/2005	18/09/2031	2.00	4.25	0.09
PWLB	28/03/2012	28/03/2032	5.00	3.3	0.17
PWLB	20/05/2005	01/06/2032	2.00	4.45	0.09
PWLB	04/11/1999	01/12/2032	1.50	4.625	0.07
PWLB	28/03/2012	28/03/2033	6.00	3.34	0.20
PWLB	20/05/2005	01/06/2033	2.00	4.45	0.09
PWLB	15/11/1999	19/09/2033	1.00	4.25	0.04
PWLB	28/03/2012	28/03/2034	7.00	3.37	0.24
PWLB	20/05/2005	01/06/2034	2.00	4.45	0.09
PWLB	15/11/1999	18/09/2034	1.00	4.25	0.04
PWLB	21/11/2005	18/09/2034	5.00	4.25	0.21
PWLB	28/03/2012	28/03/2035	2.00	3.4	0.07

PWLB	14/06/2005	14/06/2035	5.00	4.35	0.22
PWLB	15/11/1999	18/09/2035	1.00	4.25	0.04
PWLB	21/11/2005	18/09/2035	5.00	4.25	0.21
PWLB	15/11/1999	18/09/2036	0.50	4.25	0.02
PWLB	15/11/1999	18/09/2036	0.50	4.25	0.02
PWLB	28/03/2012	28/03/2037	9.00	3.44	0.31
PWLB	11/01/2006	01/12/2037	4.00	4	0.16
PWLB	11/01/2006	01/12/2038	4.00	4	0.16
PWLB	15/02/2010	01/06/2041	2.00	4.57	0.09
PWLB	11/08/2006	01/12/2041	3.00	4.35	0.13
PWLB	15/02/2010	01/06/2042	2.00	4.57	0.09
PWLB	11/08/2006	01/12/2042	2.00	4.35	0.09
PWLB	11/08/2006	01/12/2043	2.00	4.35	0.09
PWLB	06/09/2006	01/12/2044	3.00	4.25	0.13
PWLB	06/09/2006	01/12/2045	3.00	4.25	0.13
PWLB	29/06/2006	18/09/2046	4.00	4.45	0.18
PWLB	30/08/2006	01/12/2046	2.00	4.25	0.09
PWLB	29/06/2006	18/09/2047	4.00	4.45	0.18
PWLB	30/08/2006	01/12/2047	2.00	4.25	0.09
PWLB	09/10/1998	18/09/2048	1.00	4.5	0.05
PWLB	29/06/2006	18/09/2048	3.50	4.45	0.16
PWLB	30/08/2006	01/12/2048	2.00	4.25	0.09
PWLB	09/10/1998	18/09/2049	1.00	4.5	0.05
PWLB	29/06/2006	18/09/2049	3.00	4.45	0.13
PWLB	30/08/2006	01/12/2049	2.00	4.25	0.09
PWLB	30/08/2006	01/06/2050	5.00	4.25	0.21
PWLB	17/09/1998	18/09/2050	1.00	5.125	0.05
PWLB	17/09/1998	18/09/2051	1.00	5.125	0.05
PWLB	07/03/2007	01/06/2052	2.00	4.25	0.09
PWLB	23/07/1998	03/06/2052	1.00	5.5	0.06
PWLB	07/03/2007	01/06/2053	2.00	4.25	0.09
PWLB	23/07/1998	02/06/2053	1.00	5.5	0.06
PWLB	19/06/1998	01/06/2054	1.00	5.375	0.05
PWLB	19/06/1998	01/06/2055	1.00	5.375	0.05
PWLB	21/06/2006	01/06/2055	2.00	4.3	0.09
PWLB	22/06/2006	18/09/2055	4.00	4.35	0.17
PWLB	19/06/1998	01/06/2056	1.50	5.375	0.08
PWLB	21/06/2006	01/06/2056	3.00	4.3	0.13
PWLB	22/06/2006	01/06/2056	6.00	4.35	0.26
PWLB	02/10/1997	25/09/2057	1.50	6.625	0.10
TOTAL PWLB LOANS			266.93		9.67

Lender	Start Date	Maturity Date	Amount £m	Rate	Annual Interest £m
LOBO Loans					
Barclays Bank	03/12/2004	03/12/2054	10.00	4.45	0.45
FMS Wermanagement	07/12/2004	08/12/2053	10.00	4.45	0.45
PBB Deutsche Pfandbriefbank	10/12/2004	10/12/2052	10.00	4.45	0.45
Dexia Credit Local	10/12/2004	11/12/2051	10.00	4.45	0.45
Barclays Bank	31/08/2005	31/08/2055	5.00	3.99	0.20
Dexia Credit Local	20/02/2006	18/02/2066	6.00	4.45	0.27
Beyern LB	05/03/2007	07/03/2067	4.00	4.2	0.17
Barclays Bank	31/07/2007	01/08/2067	6.00	4.21	0.25
TOTAL LOBO LOANS			61.00		2.67
TOTAL - ALL LOANS			327.93		12.33

Appendix 3**Investment Portfolio as at 31 March 2018 (compared to the counterparty list)**

Borrower	Amount (£m)	Interest Rate	Start Date	Maturity	LAS Credit Rating
National Bank of Abu Dhabi	8.00	0.53	14/09/2017	13/09/2018	Orange - 12 months
DBS Bank Ltd.	8.00	0.42	18/09/2017	18/06/2018	Orange - 12 months
Coventry Building Society	8.00	0.45	27/10/2017	27/04/2018	Red - 6 months
Landesbank Hessen Thuringen	8.00	0.53	05/01/2018	05/04/2018	Orange - 12 months
Plymouth City Council	8.00	0.50	31/01/2018	30/04/2018	Local Authority - 60 months
Birmingham City Council	5.00	0.80	12/03/2018	12/04/2018	Local Authority - 60 months
Close Brothers	5.00	0.90	15/03/2018	15/09/2018	Red - 6 months
Black Rock Money Market Fund	0.00	0.37	*	*	AAA
JP Morgan Money Market Fund	0.00	0.38	*	*	AAA
Prime Rate Money Market Fund	0.01	0.44	*	*	AAA
Goldman Sachs Money Market Fund	0.00	0.35	*	*	AAA
Standard Life Investments Liquidity Fund	13.68	0.45	*	*	AAA
Total	63.69				

* Money Market Funds – cash can be invested and withdrawn on a daily basis (subject to maximum investment limits) so there is no start date or maturity date for the purposes of this report.

Link Asset Services provide a creditworthiness service, which employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- a) credit watches and credit outlooks from credit rating agencies;
- b) CDS spreads to give early warning of likely changes in credit ratings;
- c) sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- a) Yellow – 5 years (this category is for AAA rated Government debt or its equivalent, including an investment instrument – collateralised deposits, where the investment is secured only against local authority debt, namely LOBOs, making them effectively government exposure);
- b) Dark pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- c) Light pink – 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- d) Purple – 2 years;
- e) Blue – 1 year (only applies to nationalised or semi nationalised UK Banks and their subsidiaries):
- f) Orange – 1 year;
- g) Red – 6 months;
- h) Green – 100 days; and
- i) No Colour – not to be used.

The advisor's creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.