

Capita Methodology in Determining Creditworthiness of Counterparties:

Capita's creditworthiness service employs a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap [CDS] spreads to give early warning of likely changes in credit ratings and gauge a market view of the counterparty
- sovereign ratings to select counterparties from only the most creditworthy countries

Capita's 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 code bands which indicate the relative creditworthiness of counterparties. These colour codes are used to determine the maximum duration for deposits and are therefore referred to as durational bands. This approach gives a much improved level of security for its deposits. The table below also shows the current limits for deposits with any bank or group of banks which is £2m except for the Councils own bank, HSBC, which has an individual limit of £15m and other named institutions below (£4m) .

Banking Institutions Colour Bandings	Maximum Duration [per Capita]	Current Individual Limits per Bank / Group of Banks (£)
White	0 months	No deposits to be placed
Green	100 days	Unlimited, but no more than 4m per Bank / Group of Banks
Red	6 months	Unlimited, but no more than 4m per Bank / Group of Banks
Orange/Blue	12 months	To a maximum of 4m over 364 days, and no more than 4m per Bank / Group of Banks
Purple	24 months	To a maximum of 4m over 364 days, and no more than 4m per Bank / Group of Banks

As previously stated, an exception to the above is that the Councils own bank, HSBC, has an individual limit of £15m.

Other Institutions	Maximum Duration	Individual Limits (£)
Local Authorities	12 months	2m
Government Debt Management Office	12 months	Unlimited
Lancashire County Council Call Account	12 months	2m
Money Market Fund*	12 months	1m

* the total amount deposited in Money Market Funds not to exceed the lower of £2m or 40% of the Council's total deposits.

Banks / Groups of Banks & Building Societies whose Individual Limit is £4m

The following banking institutions have individual limits of £4m:-

Lloyds Banking Group plc including Bank of Scotland and Lloyds Bank
Royal Bank of Scotland Group plc including National Westminster Bank and Royal Bank of Scotland
Abbey National Treasury Services plc
Barclays Bank
Santander UK plc
Nationwide Building Society

Proposed Change

Goldman Sachs International Bank, increased limit from £2m to £4m