REPORT TO	DATE OF MEETING
Cabinet	February 21 2012

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SOUTH RIBBLE BOROUGH COUNCIL

forward with South Ribble

SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Strategy 2012/13 to 2014/15	Finance & Resources	G Whitehead	6

SUMMARY AND LINK TO CORPORATE PRIORITIES

1. To present for the consideration of the Cabinet the prudential indicators and the treasury strategy for the years to 2014/15. The report has already been considered by Governance Committee (on February 1) but since then a single change, concerning Sovereign ratings, has been made.
   This has been necessitated by the possibility of further reductions in Sovereign Ratings, including that of the UK. Paragraph 2.10 of the Investment Strategy draws attention to the downgrade of two major countries, the United States and France. To maintain the current minimum rating of AAA, and the policy of restricting investments to the UK, could become impossible. In light of this it is proposed that the minimum Sovereign Rating be reduced from AAA to AA-.

RECOMMENDATIONS

2. That Council is asked to approve
   - The Prudential Indicators for 2012/13 to 2014/15, as set out in this report
   - The Treasury Management Strategy for 2012/13, incorporating the Treasury Prudential Indicators
   - The Annual Investment Strategy 2012/13. This retains the limit of 3 months on investments in all financial institutions other than the part nationalised banks, and.
   - The Annual MRP Policy Statement 2012/13

DETAILS AND REASONING

7. The Local Government Act 2003, gave authorities greater discretion over capital expenditure by allowing prudential borrowing. It also sought to strengthen governance by making compliance with CIPFA's Prudential Code and CIPFA's Treasury Management Guidance, statutory requirements. The former requires the production of Indicators showing that expenditure is affordable, the latter requires the approval of an annual Treasury Management Strategy incorporating Treasury Indicators and limits.

8. Consequential to the Prudential Borrowing powers is a requirement that authorities should make prudential provision for the repayment of borrowing (MRP). This is to be the subject of an annual policy statement to be made to the full Council prior to the start of each year.

9. Finally Authorities have, through the Local Government Act 2003, also been given greater discretion in investing surplus cash. They are required however, by guidance issued by the DCLG, to prepare an annual Investment Strategy to identify how that discretion should be applied.

10. This report therefore brings together these related requirements. The Governance Committee's role is to scrutinise these policies and practices, while the Council is required to approve them.

PRUDENTIAL INDICATORS 2012/13 to 2014/15

Local Authorities have discretion to incur capital expenditure in excess of the capital resources provided by government, or those resources resulting from the sale of assets or the receipt of contributions from other parties. To do this however increases a Council's indebtedness and ultimately leads to a charge to the revenue budget.

To manage that process Councils must set certain Indicators. These are designed to indicate that the expenditure is prudent and affordable. The following are the relevant indicators for South Ribble.

Prudential Indicator 1 - Capital Expenditure

The following statement summarises the latest estimates of capital expenditure and the methods of financing the programme. It shows separately the cost of capital works at Leisure Centres, undertaken by Serco on behalf of South Ribble Community Leisure Trust. Since the assets are owned by the Council this has to be accounted for as a form of finance lease.

The amount shown as "unfinanced" is the cost of the vehicle replacement programme. An evaluation will be done to determine whether these assets should be leased or financed from prudential borrowing. The latter course has been assumed in the estimates.

Table 1 – Capital Expenditure	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Capital expenditure under Leisure Contract – treated as a finance lease (affects the CFR see Prudential Indicator 2 below)	33	831	0	100
Capital expenditure incurred directly by the Council	2,329	3,982	2,758	1,192
Less Capital resources				
capital receipts	(113)	(272)	(43)	(20)
contributions	(363)	(200)	(0)	0
Grants	(521)	(551)	(201)	(201)
Revenue and reserves	(1,024)	(2,105)	(1,751)	(541)
Unfinanced amount (affects the CFR see Prudential Indicator 2 below)	308	854	763	430

Prudential Indicator 2 – Capital Financing Requirement (CFR)

The CFR is a measure of the Council's indebtedness resulting from its capital programme. It increases when, as above, the Council incurs unfinanced capital expenditure or leases liabilities. Its importance lies in the fact that it results in a charge to the revenue account, either from the lessor to discharge his debt, or an internal charge to make provision to finance the expenditure (the Minimum Revenue Provision).

It should be noted that this indebtedness does not result in the Council having an immediate need to take out additional borrowings. This is because the Council has various reserves, and the cash which supports those reserves can be used temporarily instead of borrowing.

The CFR is important therefore because it creates a charge which hits the council tax payer. The following table shows how the CFR is changing over the next few years.

Table 2 - CFR	31/03/12 Revised £'000	31/03/13 Estimate £'000	31/03/14 Estimate £'000	31/03/15 Estimate £'000
Estimated CFR	**5,589**	**6,560**	**6,468**	**6,016**
Reasons for the annual change in the CFR				
Additional finance lease liability		831	0	100
Unfinanced capital expenditure (as above)		854	764	430
Repayment of finance lease		(267)	(246)	(259)
Annual revenue charge (MRP)		(447)	(609)	(723)

<u>Prudential Indicator 3 – Ratio of financing costs to the net revenue stream</u>

This indicator shows the proportion of the Council's budget (i.e. the costs it has to meet from government grants and local taxpayers), that is required to meet the costs associated with capital financing (interest and principal, net of interest received). The proportion is increasing because the budget has provisionally assumed outright purchase of certain vehicles (rather than operational leasing). There is an offsetting reduction in the budgets for leasing rentals.

Table 3 – Ratio of financing costs	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
Ratio	3.98	4.37	5.59	6.49

<u>Prudential Indicator 4 – Incremental impact of capital investment decisions on the band D Council Tax</u>

Table 4 – Impact of capital investment decisions	2011/12 Estimate £	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Increase/(decrease) in Band D charge	(0.83)	0	1.58	3.70

This table shows the cumulative effect on council tax levels of the changes between the capital programme reported in this strategy and that submitted a year ago. It has to be stressed that the complexity, and notional nature, of the calculations mean that the figures should only be treated as being indicative.

The reduction in costs for the years to 2013/14 is consistent with a slight reduction in total capital spend over the years 2010/11 to 2013/14. The increase in 2014/15 reflects the introduction of a new year into the programme. In addition changes in the methods of financing the programme over the years have contributed to the movements in the figures.

TREASURY MANAGEMENT STRATEGY 2012/13

1. Background

The treasury management service fulfils an important role in the overall financial management of the Council's affairs. It deals with "*the management of the authority's investments and cash flows, its 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"* (CIPFA) .

Prudential Indicators 5 and 6

The Council has a statutory obligation to have regard to the CIPFA Code of Practice (revised in 2009 and updated further in 2011), and is required to adopt both the Code and the Treasury Management Policy Statement therein. Both of these were adopted by Council on 3 March 2010 (Financial Regulation 4G refers). The Policy Statement is repeated at Appendix B

2. Reporting

This strategy statement has been prepared in accordance with the revised Code. As a minimum, a mid year monitoring report and a final report on actual activity after the year end, will be submitted to the Council. Additional reports will be made to the Governance Committee during the year as required.

3. Borrowing and Investment Projections

The Council's borrowings and investment are inter-related. The following table details the expected changes in borrowings and cash, consistent with the capital and revenue budgets. As discussed previously (in relation to the Prudential Indicator on the CFR), and again in paragraph 5 below, additional long term borrowing is not envisaged.

Table 5 – Borrowing and Investments	31 Mar 2012 Estimate £'000	31 Mar 2013 Estimate £'000	31 Mar 2014 Estimate £'000	31 Mar 2015 Estimate £'000
Borrowing	0	0	0	0
Est. surplus cash available for investment	7,681	4,848	3,303	3,432
Net borrowing	7,681	4,848	3,303	3,432

In the above table "cash available for investment" does not include the full amount owed by the Landsbanki or Heritable Banks. It includes instead the amount we assume might be repaid in future years.
The main area of risk to these projections is the economic climate and its affect on the collection of income. Any increase in debtors would adversely affect the balances shown

Prudential Indicator 7

The Prudential Code requires authorities to make comparison between net borrowing and the CFR. At its greatest net borrowing should not exceed the current year's CFR plus the estimated increases in CFR for the following two years. The figures reported above meet this requirement.

Prudential Indicator 8 The Operational Boundary for External Debt

The Council is required to set two limits on its external debt (i.e. the amounts it owes to lessors and any amounts it borrows directly). The first is the Operational Boundary. This should reflect the most likely, but not worst case scenario consistent with the Council's budget proposals.

As shown in table 5 above, it is not expected that additional borrowings will be required in the years covered by this strategy. The proposed operational boundary therefore reflects the expected leasing liabilities.

Table 6 – Operational Boundary	31/3/12 Estimate £'000	31/3/13 Estimate £'000	31/3/14 Estimate £'000	31/3/15 Estimate £'000
Borrowings	0	0	0	0
Other long term liabilities	1,300	1,900	1,600	1,500
Operational boundary	1,300	1,900	1,600	1,500

Prudential Indicator 9 The Authorised Limit

This is the second limit. It should allow headroom above the Operational Boundary to accommodate the fluctuations that can occur in cash flows. The following is proposed:

Table 7 Authorised Limit	31/3/12 Estimate £'000	31/3/13 Estimate £'000	31/3/14 Estimate £'000	31/3/15 Estimate £'000
Borrowings	2,000	2,000	2,000	2,000
Other long term liabilities	1,300	1,900	1,600	1,500
Authorised limit	3,300	3,900	3,600	3,500

4. Economic outlook and expected movement in interest rates

The report of the Council's consultants is attached at Appendix A.

Not surprisingly they stress the huge economic uncertainties, and conclude that the overall balance of risk is still to the downside. Their expectation of a base rate increase has been delayed to mid 2013. They also continue to warn of rising PWLB rates in reaction to the high volumes of government debt.

5. Borrowing strategy

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 loan debt. This is possible because cash, supporting the Council'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

Table 5 above shows that cash balances should remain throughout the period. On this basis no further long term borrowing should be necessary, although there is the possibility of short term borrowings being necessary to cover fluctuations in cash flow.

6. Icelandic Investment

Heritable Payments continue to be received on a quarterly basis. The latest, in January 2012, was for 3.32% or £67k. In total 68% has now been repaid.

Landsbanki The first repayment to the Council is currently lodged in an escrow account controlled by the Winding Up Board. The latest advice is that this should be released during February once the legal formalities have been concluded.

7. Treasury Management Limits on Activity

The Authority is required to set the following Treasury Indicators. The purpose of these is to minimise the risk resulting from movements in interest rates.

Treasury Indicator 1 – Upper limit on Variable rate exposure

The Council is exposed to interest rate movements on its invested cash. The amount varies significantly over the course of the year, and during each month. Potentially balances can peak at around £20m for short periods. This amount will therefore form the limit

	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Upper limit on variable rate exposure -	£20m	£20m	£20m	£20m

Treasury Indicator 2 – Upper limit on fixed rate exposure

The Council is exposed to fixed rate interest on the finance lease liabilities. The maximum estimated exposure is based on the Operational Boundary (PI 9 above).

	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Upper limit on fixed rate exposure	£1.3m	£1.9m	£1.6m	£1.5m

Treasury Indicator 3 - Maturity structure of borrowing

The Council is required to determine upper and lower limits for the maturity structure of its borrowings. The Council will have no borrowings at 31/3/12 and none are envisaged over the period covered by this strategy. Therefore the upper and lower limits are.

	As at 31/3/2013	
	Lower Limit	Upper Limit
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 to 5 years	0%	0%
5 to 10 years	0%	0%
10 years and above	0%	0%

Treasury Indicator 4 – Total principal sums invested for greater than 364 days

It is not planned to make any investments for periods over 364 days.

8. Use of Treasury Advisors

The Council has contracted with Sector treasury Services as its treasury advisor for the period to 31 March 2013 and will therefore be undertaking a review during 2012/13.

The Council recognises that responsibility for treasury decisions cannot be delegated to the advisor but remain its responsibility at all times.

9. Performance Indicators

Investments – the generally accepted indicator is 7-day LIBID (The London Interbank Bid rate). This is the rate that could be obtained by the “passive” deposit of money onto the money market. Active investment, in normal times, should outperform this. It is recommended that this be set as an indicator.

INVESTMENT STRATEGY 2012/13

1. Introduction

1.1 Under the Power in Section (15) (1) of the Local Government Act 2003 the CLG has issued Guidance on Local Government Investments. This was updated with effect from 1 April 2010. Each Authority is recommended to produce an annual strategy that sets out its policies to manage investments, giving priority to security and liquidity. This strategy follows the updated guidance.

1.2 The major element in the guidance is that authorities should distinguish between lower risk (specified investments), and other investments (non-specified). These terms are explained in more detail below.

1.3 The specific issues to be addressed in the Investment Strategy are as follows:

- How "high" credit quality is to be determined
- How credit ratings are to be monitored
- To what extent risk assessment is based upon credit ratings and what other sources of information on credit risk are used
- The procedures for determining which non specified investments might prudently be used
- Which categories of non-specified investments the Council may use
- The upper limits for the amounts which may be held in each category of non- specified investment and the overall total.
- The procedures to determine the maximum periods for which funds may be committed.
- What process is adopted for reviewing and addressing the needs of members and treasury management staff for training in investment management.
- The Authority's policies on investing money borrowed in advance of spending needs. The statement should identify measures to minimise such investments including limits on (a) amounts borrowed and (b) periods between borrowing and expenditure

2. South Ribble Strategy 2012/13

Objectives

2.1The Council's investment priorities are:
- The security of capital and
- The liquidity of its investments.

2.2 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

2.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. The Council will restrict borrowing in excess of its immediate need, to the additional amount envisaged to be required in the following eighteen months.

Use of Specified and Non-Specified Investments

2.4 Specified investments are those made~~:~~
- with high "quality" institutions, the UK Government or a local authority,
- for periods of less than one year and
- denominated in sterling.

Other investments are "non-specified". These could include investments in gilts, bond issues by other sovereign bodies and those issued by multilateral development banks, commercial paper, and any deposits for a period exceeding one year.

The Council policy has been to only make specified investments, and it is proposed that this be continued.

Counterparty Selection Criteria

2.5 In determining which institutions are “High Quality” the Council uses the creditworthiness service provided by Sector. This combines the credit ratings from all three rating agencies (Fitch, Moody, Standard and Poor) in a sophisticated modelling process. It does not however rely solely on these ratings, but also uses

- Credit watches and credit outlooks from the agencies
- Credit Default Spreads (CDS) to give early warning of likely changes in ratings
- Sovereign ratings to select counterparties from only the most credit worthy countries

These factors are combined in a scoring system, and results in counterparties being colour coded:

- Purple – recommended maximum duration 2 years
- Blue (used for nationalised and part nationalised UK Banks)– 1 year
- Orange – 1 year
- Red – 6 months
- Green – 3 months
- No colour – not to be used

2.6 The Council has also chosen to restrict lending to UK financial institutions. Currently no such institutions attract a purple colour code.

2.7 The Council may use AAA rated Money Market Funds.

2.8 The Council may lend to the UK Government (which includes the Debt Management Office)

2.9 The Council may lend to other Local Authorities

2.10Previous Treasury Strategies have specified a minimum sovereign rating of AAA from all three agencies. Recent downgrades to the USA and France, and the threat that other countries including the UK could at some future date also be downgraded, has necessitated a reduction to a AA- minimum rating.

Because of the recent financial turmoils, and the threat these pose to the banking system, members agreed in September 2011 to further restrict investments to a maximum period of three months for all institutions save those which have been part nationalised, which would be subject to a limit of 1 year. No change in these restrictions is proposed.

Monitoring of Credit ratings

2.10 Sector supply rating warnings and changes immediately following their issuance by the rating agencies. The colour coded counterparty lists are reissued weekly, updated by such changes.

Time and money Limits

2.11 No changes to the present limits are proposed. The limits applying to each category of institution are specified in the attachment to this report

Member Training

2.12 There are no plans to provide additional training in 2012/13.

Proposed list of Financial Institutions and Investment Criteria

Category	Institutions	Sector colour code	Sovereign rating	Max period	Limit per Institution
Sovereign or Sovereign "type"	DMADF Local Authority UK Govt backed Money market funds			6 months 1 year n/a instant access	No limit £3m £3m
UK Nationalised Institutions	None (N Rock deposits no longer guaranteed)				
Institutions guaranteed by other governments	None (Irish Banks are guaranteed but have been removed from the list)				
UK Partly nationalised institutions	RBS group (inc Nat West) Lloyds Group (inc HBoS & Lloyds)	Blue Blue	Minimum AA- from all 3 agencies	1 year 1 year	£3m per group £3m per group
Independent UK Institutions	HSBC Santander UK Barclays, Nationwide	Orange Moves between red and green	Minimum AA- from all 3 agencies	Restricted to 3 months	£2m £2m
Money Market Funds	Prime Rate Sterling Liquidity Fund 4	Aaa/MR1+		instant access	£3m
Deposit/Call Accounts	Santander, Bank of Scotland, Nat West Lancs CC			Call accounts with instant access	£3m less value of term deposits

Note – Deposits with any one institution shall not exceed £3m

ANNUAL STATEMENT OF MRP POLICY 2012/13

Regulations specify that the minimum provision that a Council must make for the repayment of its debt. This is referred to as the MRP.

The Council will assess their MRP for 2012/13 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The major proportion of the MRP for 2012/13 relates to debt incurred prior to 2008/9. MRP will continue to be charged on this at the rate of 4%, in accordance with option 1 of the guidance. There are some capital schemes since then which generate a further MRP liability (i.e. capital expenditure which is not financed by any grant or contribution e.g. vehicles). The MRP liability on this will be based on the estimated useful life of the asset, using the equal annual instalment method of calculation (option 3 of the guidance).

Estimated life periods will be determined under delegated powers with reference to the guidance. As some types of capital expenditure are not capable of being related to an individual asset, the MRP will be assessed on a basis which most reasonably reflects the anticipated period of benefit arising from the expenditure.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	The financial implications are covered in the report
LEGAL	The strategy ensures compliance with various regulations and stautory codes of practice
RISK	The Council’s treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.
OTHER (see below)	

Asset Management	*Corporate Plans and Policies*	*Crime and Disorder*	*Efficiency Savings/Value for Money*
Equality, Diversity and Community Cohesion	*Freedom of Information/ Data Protection*	*Health and Safety*	*Health Inequalities*
Human Rights Act 1998	*Implementing Electronic Government*	*Staffing, Training and Development*	*Sustainability*

BACKGROUND DOCUMENTS

Financial Strategy/Budget and Council Tax 2012/13
Treasury Management in the Public Services: Code of Practice
CIPFA Prudential Code for Capital Finance in Local Authorities

APPENDIX A

The following is the advice of the Council's consultants – Sector (December 2011)

"Economic outlook and expected movement in interest rates

The interest rate forecast is as follows:

	Dec-11	Mar-12	Sep-12	Dec-12	Mar-13	Sep-13	Dec-13	Mar-14	Sep-14
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	2.00%
5yr PWLB	2.30%	2.30%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.30%
10yr PWLB	3.30%	3.30%	3.30%	3.40%	3.50%	3.70%	3.80%	4.00%	4.40%
25yr PWLB	4.20%	4.20%	4.30%	4.30%	4.40%	4.60%	4.70%	4.80%	5.00%
50yr PWLB	4.30%	4.30%	4.40%	4.40%	4.50%	4.70%	4.80%	4.90%	5.10%

Global economy

The outlook for the global economy remains clouded with uncertainty with the UK economy struggling to generate sustained recovery that offers optimism forr 2011 and 2012, or possibly even 2013. Consumer and business confidence levels are low and with little to boost sentiment, it is not easy to see potential for a significant increase in the growth rate in the short term.

At the centre of much of the uncertainty is the ongoing **Eurozone sovereign debt crisis** which has intensified, rather than dissipated throughout 2011. The main problem has been **Greece**, where, even with a Eurozone/IMF/ECB bailout package and the imposition of austerity measures aimed at deficit reduction, the lack of progress and the ongoing deficiency in addressing the underlying lack of competitiveness of the Greek economy, has seen an escalation of their problems. These look certain to result in a default of some kind but it currently remains unresolved if this will be either "orderly" or "disorderly", and/or also include exit from the €uro bloc.

As if that were not enough there is growing concern about the situation in **Italy** and the risk that contagion has not been contained. Italy is the third biggest debtor country in the world but its prospects are limited given the poor rate of economic growth over the last decade and the lack of political will to address the need for fundamental reforms in the economy. The Eurozone now has a well established track record of always doing too little too late to deal with this crisis; this augurs poorly for future prospects, especially given the rising level of electoral opposition in northern EU countries to bailing out profligate southern countries.

The US economy offers little to lift spirits. With the next Presidential elections due in November 2012, the current administration has been hamstrung by political gridlock with the two houses split between the main parties. In quarter 3 the Federal Reserve started "Operation Twist" in an effort to re-ignite the economy in which growth is stalling. High levels of consumer indebtedness, unemployment and a moribund housing market are weighing heavily on consumer confidence and so on the abiltity to generate sustained economic growth.

Hopes for broad based recovery have, therefore, focussed on the **emerging markets** but these areas have been struggling with inflationary pressures in their previously fast growth economies. China, though, has maintained its growth pattern, despite tightening monetary policy to suppress inflationary pressures, but some forward looking indicators are causing concern that there may not be a soft landing ahead, which would then be a further dampener on world economic growth.

Sector's forward view

Economic forecasting remains troublesome with so many extermal influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains weak and whilst there is still a broad range of views as to potential performance, they have all been downgraded throughout 2011. Key areas of uncertainty include:

- a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;

- the impact of the Eurozone crisis on financial markets and the banking sector;

- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to exporting manufactured goods;

- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that inceasingly seem likely to be undershot;

- a continuation of high levels of inflation ;

- the economic performance of the UK's trading partners, in particular the EU and US, with some analysts suggesting that recession could return to both;

- stimulus packages failing to stimulate growth;

- elections due in the US, Germany and France in 2012 or 2013;

- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.

The overall balance of risks remains weighted to the downside. Lack of economic growth, both domestically and overseas, will impact on confidence putting upward pressure on unemployment. It will also further knock levels of demand which will bring the threat of recession back into focus.

Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before mid-2013 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

APPENDIX B

Treasury Management Policy Statement (adopted 2nd March 2010)

1. This organisation defines its treasury management activities as: *The management of the organisation's investments and cash flows, its 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.*

2. This organisations regards the succesful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury managementa ctivities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achieevement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.