Chorley Council

Report of	Meeting	Date
Statutory Finance Officer	Audit Committee	19 January 2012

DRAFT - TREASURY STRATEGIES AND PRUDENTIAL INDICATORS 2012/13 TO 2014/15

PURPOSE OF REPORT

1. To present for the scrutiny of the Committee the prudential indicators and the treasury strategy for the years to 2013/14. Regulations require the Strategy to be finally approved by the full Council. It is intended therefore to submit it to the rate fixing Council on February 28th. That meeting will also consider the capital programme for the years to 2014/15, and the Strategy will be updated in light of that report, including data for 2014/15.

RECOMMENDATION(S)

2. That Audit Committee note that the following will be recommended to Council

- The Prudential Indicators for 2012/13 to 2013/14, 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.
- The Annual MRP Policy Statement 2012/13

EXECUTIVE SUMMARY OF REPORT

3. This report outlines the Council's prudential Indicators for 2012/13 to 2013/14, and sets out the expected treasury operations for this period. It also states the policy for making the minimum provision for repayment of debt. No changes in policy have been proposed.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

4. This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			X

BACKGROUND

5. 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.

6. 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 Audit Committee role is to scrutinise these policies and practices, while the Council is required to approve them.. (Financial Regulations paragraph 3.101)

DETAIL

11. The detailed statements and strategies etc are attached

IMPLICATIONS OF REPORT

12. This report affects the following areas. The relevant Directors' comments are attached:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		No significant implications in this area	

COMMENTS OF THE STATUTORY FINANCE OFFICER

13. This report meets statutory requirements. Its statistical content is consistent with the assumptions made in the revenue and capital budgets. The criteria it recommends will direct the Council's treasury operations in 2012/13.

GARY HALL
STATUTORY FINANCE OFFICER

Document	Inspection
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	Town Hall

Report Author	Ext	Date	Doc ID
G Whitehead	5485	23/12/11	Treasury Strategy

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 Chorley.

Prudential Indicator 1 - Capital Expenditure

The capital programme is reported on a quarterly basis to the Executive Cabinet. The following statement summarises the figures last reported to Cabinet. It shows that the use of prudential borrowing is intended, although this will be revised if additional capital receipts can be generated. Provision for the revenue costs (interest effects and debt repayment) has been built into the revenue budget.

Table 1 – Capital Expenditure	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
The Council's capital expenditure.	8,410	1,100	799	
Less Capital resources				
capital receipts	(71)	0	0	
contributions	(5,198)	(101)	0	
Grants	(1,195)	(279)	(269)	
Revenue and reserves	(759)	(115)	0	
Balance – met from prudential borrowing	1,187	605	530	

Prudential Indicator 2 – Capital Financing Requirement (CFR)

The CFR is a measure of the Council's indebtedness resulting from its capital programme. It can be seen that the CFR is increasing because of the planned prudential borrowing.
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. Indebtedness does however ultimately have to be discharged, either by making a charge to the revenue account or by finding other specific capital resources, such as capital receipts.

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	9,056	9,317	9,481	
Reasons for the annual change in the CFR				
prudential borrowing in year		605	530	
estimated MRP		(344)	(366)	

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Prudential Indicator 3 – Ratio of financing costs to the net revenue stream

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 borrowing (interest and principal, net of interest received).

Table 3 – Ratio of financing costs	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %	2014/15 Estimate %
Ratio	2.48	2.44	2.99	

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

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	(0.79)	(0.81)	(1.36)	

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.

Last years strategy started at 2010/11 and this years runs through to 2014/15, a period of 5 years. In that time there have been changes not only in cost but also in the phasing and methods of financing the programme. In calculating the figures shown above, the programme, as it existed in January 2011, has been compared to the programme as it stands today. It can be seen that the changes in the programme to 2013/14 result in slight reductions in the cost.
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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 2 March 2010 (Financial Procedure Rule 4 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 Audit 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, consistent with the capital and revenue budgets, and the balances available for investment at each year end. 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	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Borrowing at period start	8,872	7,822	7,272	6,922
Borrowing repaid in year	(1,050)	(550)	(350)	(350)
Borrowing in year	0	0	0	0
Est. borrowing at period end	7,822	7,272	6,922	6,572
Est. surplus cash available for investment	(5,000)	(3,000)	(2,500)	(2,000)
Net borrowing	2,822	4,272	4,422	4,572

In the above table "cash available for investment" does not include the full amount owed by Landsbanki. 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 years 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 borrowings. 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 operational boundary is based therefore on the Council's existing borrowings. A temporary breach, due to variations in cash flow, is possible, but sustained or regular excess would require explanation.

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	7,822	7,272	6,922	6,572
Other long term liabilities	13	13	13	13
Operational boundary	7,835	7,285	6,935	6,585

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	9,000	9,000	9,000	9,000
Other long term liabilities	13	13	13	13
Authorised limit	9,013	9,013	9,013	9,013

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 small cash balances should remain throughout the period. On this basis no further long term borrowing should be necessary. It is possible however, at the year ends, when available cash balances fall to their minimum level, that temporary borrowing might be required.

6. Icelandic Investment

On October 28th the Icelandic Supreme Court announced its decision to uphold the priority status of Local Authority deposits in Landsbanki. This decision is final and cannot be challenged further. The Winding Up Board has since confirmed that it will apply the ruling to the other non test case Authorities. The only negative aspect of the judgement was that interest between the date on which repayment to the Council was due and the date of claim, was disallowed. This will result in a small additional impairment charge in 2012/12.

The date and amount of the first distribution to non test case Authorities has not yet been announced, but it is expected shortly. It is known furthermore that payments will be made in euros, sterling, dollars and Icelandic krona. This introduces a foreign exchange risk.

The latest advice from the Administrator is that Authorities could recover as much as 98% of sums deposited, but that it will take a number of years for this to be achieved. In preparing the Council's Statement of Accounts at 31/03/2011 recovery of 95% over a period extending to 2018 was assumed

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.

<u>Treasury Indicator 1 – Upper limit on Variable rate exposure</u>

The Council is exposed to interest rate movements on its invested cash. This varies significantly over the course of the year, and during each month. During the current year balances peaked at just below £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

<u>Treasury Indicator 2 – Upper limit on fixed rate exposure</u>

The Council is exposed to fixed rate interest on any long term liabilities and PWLB borrowings. 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	£8.0m	£7.5m	£7.0m	£7.0m

<u>Treasury Indicator 3 - Maturity structure of borrowing</u>

The Council is required to determine upper and lower limits for the maturity structure of its debt. The following limits reflect the structure of existing borrowing and will accommodate possible borrowings in 2011/12.

	As at 31/3/2013	
	Lower Limit	Upper Limit
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 to 5 years	50%	100%
5 to 10 years	0%	50%
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.

The Council recognises that responsibility for treasury decisions cannot be delegated to the advisor but remains 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. Chorley Strategy 2012/13

<u>Objectives</u>

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.

<u>Use of Specified and Non-Specified Investments</u>

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 has only used the simplest instrument, i.e. cash deposits. A facility is being opened however that will enable the purchase of Government Treasury Bills. This is another method of lending money to the Government, but the interest rate paid is nearly double that paid on cash deposits.

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

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.

Current list of Financial Institutions and Investment Criteria (Audit Committee 29/9/11)

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	AAA stable 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	AAA stable from all 3 agencies	Restricted to 3 months	£2m £2m
Money Market Funds	Standard Life Global liquidity MM Fund	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.

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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.