Horsham District Council

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Tom Crowley, Chief Executive

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ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE

WEDNESDAY 12TH DECEMBER 2012 AT 5.30pm
COMMITTEE ROOM 1, PARK NORTH, NORTH STREET, HORSHAM

Councillors: David Holmes (Chairman)
Gordon Lindsay (Vice-Chairman)
John Bailey, Jim Rae
Roy Cornell, Stuart Ritchie
Leonard Crosbie

Tom Crowley
Chief Executive

AGENDA

		Page No.
1.	Apologies for absence	
2.	To approve as correct the minutes of the meeting of the Committee held on 27th September 2012	**1**
3.	To receive any declarations of interest from Members of the Committee	
4.	To receive any announcements from the Chairman of the Committee or the Chief Executive	
5.	Annual Audit Letter 2011/12	**8**
6.	Treasury Management Strategy 2013/14	**10**
7.	Treasury Management Activity and prudential Indicators Mid-year report 2012/13	**25**
8.	Internal Audit – Quarterly Update Report	**33**
9.	Risk Management – quarterly update	**41**
10.	Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances	

11. To consider the following exempt or confidential information:

		Reason for exemption	
	<u>Report of the Chief Internal Auditor</u>		
(a)	Appendix 3 of the Internal Audit – Quarterly Update Report	Paragraph 3	**52**

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
27TH SEPTEMBER 2012

Present: Councillors: David Holmes (Chairman), Roy Cornell, Leonard Crosbie, Jim Rae, Stuart Ritchie

Apologies: Gordon Lindsay (Vice-Chairman), John Bailey

Also present: Councillor Roger Arthur
Helen Thompson, District Auditor

AAG/15 **MINUTES**

The minutes of the meeting held on 26th June 2012 were approved as a correct record and signed by the Chairman.

The Chairman referred to Minute AAG/7 regarding underspends on the Repair & Renewals Fund. The Director of Corporate Resources indicated that this issue was being addressed both by officers and Members (through the Scrutiny & Overview Committee's Finance & Performance Working Group) who were looking at how required works were timetabled and the budget was formulated.

AAG/16 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/17 **ANNOUNCEMENTS**

There were no announcements.

AAG/18 **ANNUAL GOVERNANCE REPORT 2011/12**

Helen Thompson, the District Auditor, presented the Annual Governance Report 2011/12.

The District Auditor intended to issue an unqualified audit opinion and expected to conclude that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The action plan appended to the Annual Governance Report contained a number of recommendations from the District Auditor together with dates by which action should be taken and the officers' responses.

Outstanding work on whole of government accounts had now been completed and the District Auditor intended to issue the audit certificate alongside the opinion and value for money conclusion.

AAG/18 Annual Governance Report 2011/12 (cont.)

The District Auditor indicated that she would complete the audit within the planned fee.

Members discussed the report, with particular reference to the fixed asset register (end user policy and componentisation); housing benefit reconciliation; and related party declarations. The Head of Financial & Legal Services would advise Committee Members as to the regularity of the reconciliations now undertaken in respect of housing benefit.

The Committee noted the report and was satisfied with the external audit.

RESOLVED

(i) That the adjustments to the financial statements set out in the District Auditors' report be noted.

(ii) That the letter of representation be approved.
(See also Minute No. AAG/20 below)

(iii) That the responses to the proposed action plan be noted and agreed.

AAG/19 **STATEMENT OF ACCOUNTS 2011/12**

The Director of Corporate Resources presented the Statement of Accounts 2011/12, on which the District Auditor would issue an unqualified audit opinion.

The Statement of Accounts had been considered in draft form at the last meeting of the Committee and the only changes were those that had been highlighted by the District Auditor in the Annual Governance Report.

RESOLVED

That the 2011/12 Statement of Accounts be approved.

REASON

There is a statutory duty for the Council to approve the Statement of Accounts each year

AAG/20 **LETTER OF REPRESENTATION**

The Director of Corporate Resources asked the Committee to approve the letter of representation to the District Auditor.

AAG/20 Letter Of Representation (cont.)

RESOLVED

That the Letter of Representation be approved and signed by the Director of Corporate Resources and the Chairman of the Committee.

AAG/21 **ANNUAL GOVERNANCE STATEMENT 2011/12**

The Director of Corporate Resources reported that the Accounts and Audit (England) Regulations 2011 required the Council to review, at least once a year, the effectiveness of its governance arrangements and to publish an Annual Governance Statement. The draft Statement had been considered at the last meeting of the Committee and the comments made at that time had been incorporated into the final version (Minute No. AAG/11 (26.6.12) refers).

The review included information and assurance gathering processes to ensure that the published Annual Governance Statement was correct, as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

RESOLVED

That the Annual Governance Statement for 2011/12 be approved.

REASON

There is a statutory duty for the Council to approve the Annual Governance Statement each year.

AAG/22 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS 2011/12**

The Director of Corporate Resources presented a report on treasury management activity and prudential indicators for 2011/12.

The report confirmed that, during 2011/12, the Council had complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, had not been breached.

The report contained details of the Council’s external debts and investments and reviewed the economic background to Treasury Management activity in 2011/12.

AAG/22 Treasury Management Activity and Prudential Indicators 2011/12 (cont.)

RESOLVED

(i) That the treasury management stewardship report for 2011/12 be noted.

(ii) That the actual prudential indicators for 2011/12 be noted.

REASON

The annual treasury report is a requirement of the Council's reporting procedures. The report also covers the actual Prudential Indicators for 2011/12 in accordance with the requirements of the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities.

AAG/23 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since June 2012.

A summary of audit findings in respect of the main accounting system, risk management, private sector housing assistance grants, project management and parks & countryside services was submitted.

Members expressed concern regarding the control weaknesses that had been identified in respect of parks & countryside services, particularly with regard to the completion of COSHH risk assessments for hazardous substances held and used. The Director of Corporate Resources would advise Members on the current position regarding the completion of the COSHH risk assessments and whether the timescale agreed for their completion was appropriate.

It was noted that a volunteering policy for people who carried out specific tasks for the Council in a voluntary capacity under the supervision of an officer was currently being developed, which would address another of the weaknesses identified by the parks & countryside services audit.

It was agreed that future reports would indicate, where there was a previous opinion, whether the current audit opinion had improved or deteriorated.

Project support work had continued in respect of the implementation of information security for the authorities within the CenSus Partnership and

AAG/23 Internal Audit – Quarterly Update Report (cont.)

that a suite of policies had now been written, which would be adopted by the individual CenSus Partnership Councils. Internal Audit had made a number of recommendations to move the project forward, including the development of procedures and practices to support the individual policies.

An update was also given on the current position in respect of the Project Assurance Core Team.

it was noted that, as at 31st August 2012, the audit plan for 2012/13 was on track. A further update would be provided as part of the next quarterly report.

The Chief Internal Auditor also reported on the current position regarding the percentage of agreed action items implemented in respect of audits undertaken in 2011/12, 2010/11 and 2009/10, together with details of agreed actions not yet implemented, an update for each item and a revised implementation date.

RESOLVED

That the summary of audit and project work undertaken since June 2012 be noted.

REASON

(i) To comply with the requirements set out in the CIPFA Code of Practice for Internal Audit.

(ii) The Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

AAG/24 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor presented the latest quarterly update in respect of the Corporate Risk Register.

It was noted that the corporate risk register had been fully reviewed by the Corporate Management Team and that risks: CRR27 (Health & Safety (Failure to comply with Council policy & procedures and legislative requirements)) and CRR28 (Loss of infrastructure due to current time limited problems with air handling systems at CHN Data Centre) would be removed, as all planned actions had been implemented and the level of risk reduced to an acceptable level.

AAG/24 Risk Management – Quarterly Update Report (cont.)

It was noted that action owners should be heads of service and the corporate risk register would be amended accordingly.

A progress update was submitted in respect of the Risk Management Strategy action plan for 2012/13.

A total of 14 out of 18 departmental risk register reviews had been completed in respect of the last quarter.

RESOLVED

(i) That the updated Corporate Risk Register be approved.

(ii) That the progress made in respect of departmental risk registers be noted.

(iii) That the progress made in implementing the Risk Management Strategy action plan be noted.

REASON

To ensure that the Council has adequate risk management arrangements in place.

AAG/25 **URGENT MATTERS**

There were no urgent matters to be considered.

AAG/26 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

That, under Section 100A(2) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information, as defined in Part I of Schedule 12A of the Act, by virtue of the paragraph specified against each item, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

AAG/27 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT (PARAGRAPH 3)**

The Committee considered the detailed information submitted concerning the implementation of agreed actions arising from internal audit reports.

It was agreed that future reports should incorporate an additional column which highlights whether agreed actions have been cleared, are unresolved, or are new since the last report.

It was also agreed that, at the next meeting, the Committee would consider whether to require relevant senior officers to attend the Committee to explain why outstanding actions had not been undertaken.

The meeting finished at 7.20pm having commenced at 5.30pm.

CHAIRMAN

4 October 2012

Members
Horsham District Council
Park North
North Street
Horsham
West Sussex
RH12 1RL

Direct line 0844 798 1790
Email helen-thompson@audit-commission.gov.uk

Dear Member

Horsham District Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Horsham District Council.

Financial statement and value for money conclusion

On 27 September I presented my annual governance report to the Accounts, Audit and Governance Committee outlining the findings of my audit of your 2001/12 financial statements and your arrangements to secure economy, efficiency and effectiveness in the use of resources. I will not replicate those findings in this letter.

Following the Accounts, Audit and Governance Committee, on 28 September I:

- issued an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources; and
- certified completion of the audit.

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Closing Remarks

I have discussed and agreed this letter with the Chief Executive and Director of Corporate Resources. While this has been another challenging year for the Council I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Accounts, Audit and Governance Committee for their support and co-operation during the audit.

Yours sincerely

Helen Thompson
District Auditor

Agenda Item 6

Report to Accounts, Audit and Governance Committee

12th December 2012

By the Director of Corporate Resources

DECISION REQUIRED

Horsham District Council

serving our towns and villages

Not exempt

Treasury Management Strategy 2013/14

Executive Summary

This report is an annual statutory requirement setting the strategy for treasury management for the financial year 2013/14.

Recommendations

The Committee is recommended to recommend that the full Council:

i) approve the Treasury Management Strategy for 2013/14

ii) approve the Treasury Management Indicators for 2013/14

Reasons for Recommendations

i) The Council has previously adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Fully Revised Second Edition 2011 (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year

ii) The Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year

Background Papers: "Budget 2012/13 and Medium Term Financial Strategy" Council 22 February 2012; "Treasury Management Strategy 2012/13 "Accounts, Audit and Governance Committee 14th December 2011

Consultation: Arlingclose Consultancy Services

Wards affected: All

Contact Julian Olszowka ext 5310

Background Information

1 Introduction

The purpose of this report

1.1 The Council has significant investments and borrowing and must manage its cash flow in the short and long term. It therefore requires an overall strategy as well as sets of practices and procedures. There is also a significant array of statute and other regulation that lays down what a strategy should do. This report sets out the Council's Treasury Management Strategy for 2013/14.

1.2 Statute and associated regulation also stipulate specific treasury management indicators which this report presents for approval.

Background

1.3 The Council's Treasury Management Strategy must take account of expectation of the general economy and the global financial system. The Council receives advice on this from Arlingclose Ltd. Appendix 2 gives a commentary on the economic context and interest rate forecasts. For the purpose of the budget any new investments are expected to be at a premium in the range of 0.3% to 0.5% above bank rate.

2 Statutory and Policy Background

Statutory background

2.1 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance

Relevant Government policy

2.2 The Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

Relevant Council policy

2.3 In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice Revised 2011 (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

3 Current Treasury Position

3.1 The Council's treasury portfolio at 27th November 2012 was

	Principal £m	Interest Rate %
Call accounts	0.2	0.75-0.8
Money market funds	5	0.3-0.5
Short-term deposits	11.0	1.0-3.0
Long-term deposits	0	
Total Investments	**16.2**	
Long-term PWLB loans	4	3.38
Total Borrowing	**4**	
Net Investments	**12.2**	

3.2 According to current cash flow forecasts, net investments are expected to reduce to approximately £4m by 31st March 2013 due to capital expenditure and use of reserves. The projected position at 31st March 2014 is a net debt position of approximately £1m.

3.3 The budget for investment income in 2013/14 is £0.2m based on an average investment portfolio of £15.4m at an approximate average interest rate of 1.3%. The budget for debt interest paid in 2013/14 is £0.336m, based on an average debt portfolio of £9m at an average interest rate of 3.7%.

3.4 In November 2012 a long term investment of £1m yielding 11.5% came to an end. This investment had buoyed up investment income significantly with other returns close to 1%. Future years' investment income returns will suffer without this investment.

4 Treasury Management Strategy

4.1 The Council holds significant funds, representing income received in advance of expenditure plus balances and reserves held. In the past year, the Council's total investments have ranged between £4m and £26m, and although level of reserves is gradually reducing there will still be times when similar levels are expected in the forthcoming year. The CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.

Investment criteria and limits

4.2 The Council defines several categories of financial institutions as being of “high credit quality” (as per the CLG Guidance), subject to the monetary and time limits. These are listed in Appendix 3 and any amendments to criteria are discussed below.

4.3 The limit per organisation is reduced to £4m to acknowledge that the overall level of reserves is reducing. This does not apply to money market funds as these are not dependent on a single organisation.

4.4 The overall total for unrated Building Societies has been increased from £5m to £8m. This reflects discussions with the Council’s treasury advisers after which the Council took additional comfort from the building societies’ regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council’s deposits would be paid out in preference to retail depositors. Investments in lower rated and unrated building societies will be reviewed if the insolvency regime is amended in future.

4.5 The criteria have also dropped reference to short term ratings as the advice received is that any difference in short term rating is reflected in the ultimate long term rating so it adds no information to the process.

4.6 Credit ratings are obtained and monitored by the Council’s treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

4.7 Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it is likely to fall below the Council’s criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

4.8 The Council’s investments are normally senior unsecured liabilities of the borrower, and the credit rating of the investment is therefore normally identical to the credit rating of the counterparty. However, where a credit rating agency awards a different rating to a particular class of investment instruments, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

4.9 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the Council's criteria.

4.10 When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

4.11 If these restrictions mean that insufficient commercial organisations of "high credit quality" are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Non-specified investments

4.12 The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

4.13 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement. The total limit on long-term investments and thereby the total limit on non-specified investments is £3m.

Planned investment strategy for 2013/14

4.14 The primary objectives of the Council's investment strategy are safeguarding the repayment of the principal and interest of its investments followed by the ensuring of adequate liquidity. Only after those considerations is the investment return addressed. In the current investment climate there continues to be one over-riding risk consideration; that of counterparty security risk.

4.15 In line with the CIPFA Code the Council has previously adopted security and liquidity benchmarks. These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting explanation in the Mid-Year or Annual Report.

Security benchmark: average credit rating

4.16 The Council has adopted a security benchmark based on weighted average historic default rates. The benchmark for 2013/14 will be an average credit rating of A-.

4.17 The benchmark is one notch lower than last year reflecting the intention to increase the use of unrated building societies. Because these building societies are unrated the convention has been to assign a rating of BBB which brings down the overall rating. However, it is not felt that credit rating reflects the position of the building society sector and its business model.

Liquidity benchmark

4.18 The liquidity benchmark for 2013/14 will continue as a weighted average life between 0.3 and 0.7 years as well as the maintenance of £0.5m overdraft facility.

Yield benchmark

4.19 The yield benchmark will remain at the 7 day London Interbank bid rate.

Liquidity management

4.20 The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial plan.

Borrowing Strategy

4.21 The Council currently holds a £4m of long-term PWLB loan, as it did in the previous year, as part of its strategy for funding previous years' capital programmes. The Council's capital financing requirement (CFR, or underlying need to borrow for capital purposes) as at 31st March 2013 is expected to be £13m, and is forecast to rise to £18m by March 2014 as capital expenditure is incurred.

4.22 Members may recall that a number of projects were set up with the explicit acknowledgment that they could be covered by borrowing and the borrowing costs were part of the cost benefit analysis of where the project should proceed. These included Steyning Health Centre, Side Loading Waste Collection Vehicles, House Purchases for Temporary Accommodation, Arun House Purchase, Oakhurst Business Park Phase 3. The Council has only so far borrowed externally for the first project of Steyning Health Centre but the underlying need to borrow has been mounting as projects were completed. Effectively the Council has borrowed from its own internal funds.

4.23 The use of internal funds has been achievable up until the present but the CFR will continue to rise and during 2013/14, based on present capital spend plans, the Council will have to borrow. It is felt that the Council should then borrow longer term. Although short term rates are now low the Council will have to refinance short term rates and there is a risk that rates then will be higher. At the moment the Council can borrow longer term at 4% which, although higher than current short term rates, will mean the council does not have the interest rate risk at refinancing. The proposed strategy will therefore envisage a £5m twenty year loan being taken out in 2013/14.

4.24 The Director of Corporate Resources, under delegated powers, will take the final decision of most appropriate form of borrowing depending on the interest rates at the time and forecasted rates.

4.25 The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- any institution approved for investments above
- any other bank/building society approved by the Financial Services Authority
- capital market bond investors
- special purpose companies enabling joint local authority bond issues

4.26 The Council has previously raised its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as bond issues and bank loans, that may be available at more favourable rates.

4.27 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some higher rate loans with new loans at lower interest rates, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

Policy on Use of Financial Derivatives

4.28 The Localism Bill 2011 included a general power competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

4.29 The Council has no plans to use any financial derivative but in principle it will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they clearly reduce the overall level of risk. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

4.30 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

5 Treasury Management Indicators

5.1 The CIPFA Treasury Management Code sets a number of indicators the Council must set and these are dealt with in the following paragraphs.

Interest rate exposures

5.2 This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed are shown below. Fixed rate investments and borrowings are defined here as those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. Investments count as negative borrowing.

	2013/14	2014/15	2015/16
Upper limit on fixed interest rate exposures	£15m	£15m	£15m
Upper limit on variable interest rate exposures	£0m	£0m	£0m

Maturity structure of borrowing

5.3 This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are shown below. The Council only has one such debt at present and may have another so will set limits to allow the flexibility to change the terms and maturity date as it sees fit.

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within five years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Principal sums invested for periods longer than 364 days

5.4 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2013/14	2014/15	2015/16
Limit on investment over a year	£3m	£3m	£3m

Borrowing limits

5.5 The Council is being asked to approve these Prudential Indicators as part of the Capital Programme report. However they are shown here for completeness.

	2013/14	2014/15	2015/16
Operational boundary - borrowing	£9m	£9m	£9m
Operational boundary – other long term liabilities	£0m	£0m	£0m
Operational boundary - Total	£9m	£9m	£9m
Authorised limit – borrowing	£14m	£14m	£14m
Authorised limit – other long-term liabilities	£1m	£1m	£1m
Authorised limit – Total	£15m	£15m	£15m

Other Matters

5.6 The CLG Investment Guidance requires the Council to note the use of Treasury management advisers, staff training arrangements and its policy on investment of money borrowed in advance of need each year as part of the investment strategy:

Treasury management advisers

5.7 The Council's treasury management adviser Sterling Consultancy Services was acquired by Arlingclose Limited in October 2012. Arlingclose continues to provide advice and information on the Council's investment and borrowing activities. However, responsibility for final decision making remains with the Council and its officers. The Director of Corporate Resources in liaison with the Head of Financial services will monitor the quality of service. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

Staff training

5.8 The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study relevant professional qualifications.

Investment of money borrowed in advance of need

5.9 The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

5.10 The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

6 Outcome of Consultations

6.1 The Council's advisers Arlingclose have been consulted throughout the formulation of this strategy.

7 Other Courses of Action Considered but Rejected

7.1 The CLG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Corporate Resources, having consulted the Cabinet Member for Efficiency and Taxation, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

7.2 A narrower definition of "high credit quality" was considered but this would significantly reduced interest income. A wider definition would increase interest income but increase credit risks. The balance adopted in this report attempts to reflect the Council's risk appetite.

7.3 Delaying borrowing was considered but it was felt that the need to borrow was set to increase and longer term rates would at some point increase.

8 Staffing Consequences

8.1 There are no staffing consequences apart from the need for training.

9 Financial Consequences

9.1 The financial consequences of the report are discussed in the body of the report. The decisions above affect the net interest position of the Council as they determine the risk the Council is prepared to consider.

Appendix 1

Consequences of the Proposed Action

What are the risks associated with the proposal?	Risks such as security of funds, liquidity, interest rate risk are considered in the report.
How will the proposal help to reduce Crime and Disorder?	There are no crime and disorder implications as a result of this report.
How will the proposal help to promote Human Rights?	This report does not infringe human rights or promote convention rights
What is the impact of the proposal on Equality and Diversity? Equalities Impact Assessment attached Yes/No/Not relevant	There are no equality and diversity implications as a result of this report.
How will the proposal help to promote Sustainability?	There are no sustainability implications as a result of this report.

Appendix 2

Commentary on Economic context of the strategy and interest rate forecast

Economic context

Despite some stronger economic growth data towards the end of 2012, consumers are yet to loosen their purse strings and businesses are still reluctant to make long-term investment decisions. The momentum in GDP growth is therefore unlikely to be sustained while uncertainty over the economic outlook persists. Consumer Price Inflation has fallen towards the Bank of England's 2% target, although it is expected to be affected by volatility in energy and commodity prices throughout 2013.

Having voted to increase quantitative easing by £50bn in July, the Bank's Monetary Policy Committee is waiting to assess the effectiveness of the Funding for Lending Scheme that started in August. Further asset purchases remain a distinct possibility, although there is a developing consensus that quantitative easing is becoming less effective.

The US Federal Reserve has responded to the slowdown in growth and employment with large scale asset purchases of $40bn a month until the outlook for the labour market improves substantially. The US public finance 'fiscal cliff' nevertheless remains a serious risk unless a political solution is reached soon.

The Eurozone is making slow headway, with the European Stability Mechanism now operational, announcements on the Outright Monetary Transactions programme well received, and some progress being made towards banking union. These have placated markets and curtailed some of the immediate risks to the stability of the monetary union. A sustainable solution to the Eurozone crisis is some way off though, as fiscal integration and mutualisation of Eurozone sovereign debt liabilities remain politically unpalatable.

Interest rate forecasts

The Council's treasury management adviser, Arlingclose, believes that it could be 2016 before official UK interest rates rise. The US Federal Reserve has signalled it will keep interest rates "at exceptionally low levels" until at least 2015. More QE is expected from the Bank of England, and together with the UK's safe haven status and minimal prospect of short-term rate rises, gilt yields are expected to remain near their current lows.

Arlingclose central interest rate forecast – November 2012

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield*
Current	0.50	0.40	1.09	2.71
Q4 2012	0.50	0.55	1.10	2.80
Q1 2013	0.50	0.55	1.10	2.80
Q2 2013	0.50	0.60	1.25	2.80
Q3 2013	0.50	0.60	1.25	2.80
Q4 2013	0.50	0.60	1.25	2.80
H1 2014	0.50	0.70	1.40	2.90
H2 2014	0.50	0.75	1.40	2.90
H1 2015	0.50	0.75	1.40	3.00
H2 2015	0.50	0.75	1.40	3.00

* The Council can currently borrow from the PWLB at 0.80% above gilt yields

HM Treasury Survey of Forecasts – November 2012

	Average annual Bank Rate %			
	2013	2014	2015	2016
Highest	0.60	1.60	2.80	3.60
Average	0.53	0.65	1.30	1.80
Lowest	0.25	0.25	0.50	0.50

Appendix 3

Investment criteria and limits

The Council defines the following as being of “high credit quality” (as per the CLG Guidance), subject to the monetary and time limits shown.

		Cash limit	Time limit
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody’s and Standard & Poor’s is:	AAA	*£4m* each *(highest limit)* of which no more than *£3m* over 1 year	10 years
	AA+		5 years
	AA		4 years
	AA-		3 years
	A+		2 years
Note A group of banks under the same ownership will be treated as a single organisation for limit purposes.	A-	*£4m* each	1 year
The council’s current account bank *(NatWest plc)* if it falls below A-		*£4m*	next day
UK building societies whose lowest published long-term credit rating is BBB+ or BBB <u>and</u> societies without credit ratings with assets greater than £500m		*£1m* each *and £8m in total*	1 year
Money market funds[1] and similar pooled vehicles whose lowest published credit rating is AAA		*£5m* each *(highest limit)*	1 year
UK Central Government (irrespective of credit rating)		unlimited	10 years
UK Local Authorities[2] without credit ratings		*£4m* each *(highest limit)*	5 years

[1] as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
[2] as defined in the Local Government Act 2003, and similar authorities in Scotland

Current account bank

The Council’s current accounts are held with NatWest Bank plc, which is close to the bottom of the above credit rating criteria. The Council will treat it as “high credit quality” for the purpose of making investments that can be withdrawn on the next working day, subject to the bank maintaining an credit rating no lower than BBB-.

Building societies

UK building societies without credit ratings will be considered to be of “high credit quality”, but subject to a lower cash limits than rated societies. However, no investments will be made with rated building societies that hold a long-term credit rating lower than BBB- or equivalent, due to the increased likelihood of default implied by this rating.

Money market funds

Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council.

Funds that offer same-day liquidity and a constant net asset value will be used as an alternative to instant access call accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Foreign countries

Investments in foreign countries will be limited to those that hold an AAA, AA+ or AA sovereign credit rating from all three major credit rating agencies. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

Overseas subsidiaries of foreign banking groups will be assessed according to the country of domicile of the parent organisation.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Use of Credit ratings

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody’s Investors Service Inc and Standard & Poor’s Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Agenda Item 7

Report to Accounts, Audit and Governance Committee

12 December 2012

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt

Treasury Management Activity and Prudential Indicators Mid year Report 2012/13

Executive Summary

This report covers treasury activity and prudential indicators for mid year 2012/13.

During 2012/13 the Council complied with its legislative and regulatory requirements and the statutory borrowing limit, the Authorised Limit, was not breached.

At 30 September 2012, the Council’s external debt was £4m and its investments totalled £17.2m.

During first half of 2012/13 the Council’s cash balances were invested in accordance with the Council’s treasury management strategy. Interest of £0.16m was earned on investments, an average overall return of 1.9%.

Recommendations

The Committee is recommended to:

i) note the report

Reasons for Recommendations

i) This report meets requirement of 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice which the Council adopted on 22nd February 2012

Background Papers “Budget 2012/13 and Medium Term Financial Strategy” Council 22 February 2012; “Treasury Management Strategy 2012/13 “Accounts, Audit and Governance Committee 14th December 2011

Consultation Arlingclose Council’s Treasury management advisers
Wards affected All
Contact Julian Olszowka, Group Accountant, Ext. 5310

Background Information

1 Introduction

The purpose of this report

1.1 This report covers treasury activity and prudential indicators for part year 2012/13. It meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003

1.2 In addition, the Communities and Local Government Guidance on Local Government Investments recommends that local authorities amend their investment strategies in light of changing internal or external circumstances. This report therefore meets the requirements of both sets of guidance

2 Statutory and Policy Background

2.1 In line with the CIPFA Prudential Code for Capital Finance in Local Authorities and CIPFA Treasury Management in the Public Services: Code of Practice the Council adopts Prudential Indicators for each financial year and reports on performance relative to those indicators

2.2 The original Capital Finance Prudential Indicators for 2012/13 were agreed by Council on 22nd February 2012. The Treasury Management Strategy and indicators were scrutinised by this committee on 14th December 2011.

3 Mid year position with respect to indicators and Details

The Council's Capital Expenditure and Financing 2012/13

3.1 Capital expenditure is well within the estimates with significant spend being re-profiled to 2013/14. The table below shows spend at six months and a revised estimate of capital expenditure in 2012/13.

2012/13	Original Estimate £000	Current Spend £000	Revised Estimate £000
Capital Expenditure	5,991	859	3,528

Financing of the Capital Programme (Prudential indicator)

3.2 The estimated financing has been revised to take into account the revised overall budget which includes budgets brought forward from 2011/12 and new approvals. Revised capital spend is lower and an expected capital receipt reduce the need to use revenue reserves in 2012/13.

Capital Financing 2012/13	Original Estimate £000	Revised Estimate £000
Capital Expenditure	5.991	3,528
Capital receipts & third party contributions	351	1,457
Capital grants	428	428
Revenue Reserves	3,099	350
Total Financing	3,878	2,235
Borrowing Need	**2,113**	**1,293**

Capital Financing Requirement (CFR), External Debt and the Operational Boundary

3.3 The table shows the CFR, which is the underlying need to borrow for a capital purpose, and the expected debt position termed the Operational Boundary. There is a decrease in the expected CFR as some unfinanced capital spend is re-profiled to 2013/14

2012/13	Original Estimate £000	Current Estimate £000
Capital Financing Requirement		
Total CFR	14,515	13,000
External Debt / the Operational Boundary		
Total Debt 31 March	4,000	4,000

Limits to Borrowing Activity

3.4 External borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and next two financial years. The Director of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this Prudential Indicator.

The ratio of financing costs to net revenue stream

3.5 This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream. The estimate for the year was 5%; the current estimate is slightly lower at 4.4% due to interest income being over budget.

4 Mid Year Treasury Management Monitoring Report

Economic Background

4.1 The economic background to Treasury Management remains uncertain, Arlingclose, the Councils treasury management advisers have provided a commentary to the year so far in Appendix 1

4.2 The treasury management position at 30 September was

	Principal £m	Interest Rate %
Call accounts	4.1	0.8
Money market funds	1.1	0.4-0.7
Short-term deposits	11.0	1.3-3.0
Long-term deposits	1	11.5
Total Investments	**17.2**	
Long-term PWLB loans	4	3.38
Total Borrowing	**4**	
Net Investments	**13.2**	

Interim Performance Report

4.3 Investment income was £0.16m against a budget of £0.11m due to a combination of cash balances being larger than expected and interest rates obtained being slightly better than expected. The average return was 1.9% against benchmark 7 day LIBID of 0.4%.

4.4 No additional longer term borrowing was taken out so the only loan was PWLB loan of £4m at 3.38% repayable in 2019. Although borrowing need in terms of the Capital Finance Requirement has risen as unfinanced expenditure continues, no longer term borrowing is expected in 2012/13.

Treasury Management Indicators

4.5 **Security benchmark - average credit rating –** The Council set a security benchmark rating of A. The rating met or exceeded the benchmark up until the end of September when it dipped slightly to A-. This was due to a significant balance being held in our own Bank (A- rated) rather than a Money Market fund (AAA rated) at month end. The benchmark returned to A rating in October.

4.6 **Liquidity benchmark** – In respect of this area the Council set minimum liquidity facilities and benchmark to maintain a bank overdraft facility of £0.5m and use a Weighted Average Life of investments benchmark of 0.5 years, with a maximum of 0.8 years. The Director of Corporate Resources reports that liquidity arrangements were within benchmark during the year to date. The maximum value up to the end of September was 0.4 years

4.7 **Interest rate exposures -** This indicator is set to control the Council's exposure to interest rate risk. The exposures to fixed and variable rate interest rates, expressed as an amount of net principal borrowed were as below. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

	Limit	Actual	Met?
Upper limit on fixed rate exposures	£15m	£4m	✓
Upper limit on variable rate exposures	£0m	£0m	✓

4.8 **Maturity Structures Of Borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing. As the Council only has one such debt it has freedom to refinance the debt. The table below shows the estimates and current position.

	Upper Limit	Lower Limit	Actual	Met?
Under 12 months	100%	0	0	✓
12 months and within 24 months	100%	0	0	✓
24 months and within five years	100%	0	0	✓
Five years and within 10 years	100%	0	100%	✓
10 years and above	100%	0	0	✓

4.9 **Principal sums invested for periods longer than 364 days** – The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its long-term investments. The total principal sums invested to final maturities beyond the period end were:

	2012/13 Original Indicator	Current position
Maximum principal sums invested > 364 days	£3m	£0m

4.10 **Borrowing limits -** The Council approved these Prudential Indicators as part of the Capital Programme report.

	Limit	Actual	Met?
Operational boundary – borrowing Operational boundary – other long-term liabilities Operational boundary – TOTAL	£4m <u>£0m</u> £4m	£4m <u>£0m</u> £4m	✓ ✓ ✓
Authorised limit – borrowing Authorised limit – other long-term liabilities Authorised limit – TOTAL	£14m <u>£1m</u> £15m	£4m <u>£0m</u> £4m	✓ ✓ ✓

5 Outcome of Consultations

5.1 Arlingclose, the Council Treasury management advisers, have made comments which have been incorporated into the report.

6 Other Courses of Action Considered but Rejected

6.1 Not applicable

7 Staffing Consequences

7.1 There are no staffing consequences

8 Financial Consequences

8.1 All financial matters are covered in the body of the report.

Appendix 1

Economic review

The European Central Bank's (ECB) Long-Term Refinancing Operations (LTRO), in which the central bank supplied cheap funding to the Eurozone banking system, initiated a calmer period of financial market activity in the first quarter of the year relative to recent times. The calm was not to last, however, as the ECB intervention did not address the root causes of the Eurozone sovereign debt crisis, i.e. unsustainable debt levels in uncompetitive countries.

A number of events pushed the crisis back to the fore: the two Greek general elections, the failure of Spanish bank Bankia and subsequent bailout speculation for the sector, and signs that the Eurozone economy was experiencing a deeper downturn in economic activity than previously expected. Throughout the quarter, Germany resisted pressure for regional debt mutualisation or a banking union, unprepared to risk the moral hazard of supporting profligate Mediterranean countries. Meanwhile, yields on Spanish 10-year government bonds regularly exceeded seven percent, the danger level at which Ireland and Portugal approached the Eurozone/IMF for bailouts. Risk appetite plummeted; the FTSE 100 dropped 3.4% over the three months to June (it was down 8.8% at the end of May), while yields on safe haven bonds, including UK gilts and German bunds, regularly dipped to new record lows.

As the situation deteriorated, leaders made some progress towards a solution, prompted by the realisation that the link between sovereign and bank needed to be broken. At the EU summit at the end of June leaders agreed that the yet-to-be initiated bailout fund, the European Stability Mechanism (ESM), would have more flexibility, allowing it to buy the debt of struggling countries or directly recapitalise banks. These proposals appear close to implementation after the German Constitutional Court rejected claims the plan represented a transfer of power from Berlin to Brussels. Perhaps more significantly, at its September meeting the ECB announced proposals for unlimited purchases of the short term sovereign debt of countries that applied to the Eurozone bailouts funds for financial assistance. The highly anticipated pledge eased the fears of a short term collapse of the Eurozone, boosting risk appetite and prompting a significant reduction in Italian and Spanish government bond yields.

The reaction to the on-going sovereign crisis was exacerbated by the developing slowdown in global economic growth, as the Eurozone recession and uncertainty depressed confidence and business activity in other large economies. The US economy stuttered, with slower employment growth a particular concern placing further pressure on the Federal Reserve to engage in further monetary stimulus. A widely anticipated risk was the slowdown in Chinese growth, specifically whether the world's second largest economy would have a hard or soft landing. Signs of weakening domestic demand allied with a softer export outlook prompted multiple cuts in interest rates and the relaxation of commercial lending criteria by the People's Bank of China in an attempt to prop up economic activity. The deteriorating outlook for global growth had a significant impact on commodity prices, particularly oil prices. Over May and June the price of Brent crude fell around 30% from its April peak of $126 per barrel, although prices subsequently recovered part of these losses. At the end of September, the price was around $115 per barrel.

In the UK the recession continued into quarter two, with the loss of a working day to the Jubilee bank holiday the primary factor. However, as with the larger economies described above, the UK was not immune to the uncertainty emanating from the Eurozone, and data suggested that underlying business conditions had weakened. Trade data indicated that goods exports to the Eurozone were declining, a particular problem for a manufacturing sector struggling with weak domestic demand. The extreme wet weather in April caused a plunge in retail sales volumes, and on the positive side, a fall in inflation, while the construction sector output continued to decline amid both a weak housing market and a reduction in government capital spending.

The banking sector and credit bottleneck were perceived to be an important factor holding back economic recovery, prompting HM Treasury and the Bank of England to announce two schemes in June to reduce bank funding costs and increase the availability of cheaper finance for businesses. The Bank's intervention in the money markets placed downward pressure on Libor rates; 3-month LIBOR declined around 30 basis points during the half year to 0.70%. The deteriorating domestic and global economic conditions also boosted support for further monetary stimulus. The MPC duly increased the Asset Purchase Facility by £50bn to £375bn, the third tranche of quantitative easing.

Outlook for Interest Rates

The August Inflation Report showed that the Bank expects little economic growth this year and a gradual recovery in 2013. The weakness in demand and margin of spare capacity is projected to place downward pressure on inflation, maintaining it around target for the next few years. The recent downward trend in the CPI inflation rate allied with the apparent synchronised global downturn led by the Eurozone has pushed market expectations for a rise in interest rates out as far as 2016. Although previously discounted by the Monetary Policy Committee (MPC), there is now also the marginal possibility of a cut in Bank Rate to 0.25%. Further asset purchases also seem likely later this year.

The latest central forecast from the Council's treasury management advisers, Arlingclose is appended to the Treasury Management Strategy tabled at this meeting.

Agenda Item 8

Report to Accounts, Audit and Governance Committee

12th December 2012

By the Chief Internal Auditor

INFORMATION REPORT

Not exempt

Internal Audit – Quarterly Update Report

Executive Summary

This report summarises the work completed by the Internal Audit Section since September 2012.

Recommendations

The Committee is recommended:

i) To note the summary of audit and project support work undertaken since September 2012.

Reasons for Recommendations

i) To comply with the requirements set out in the CIPFA Code of Practice for Internal Audit.

ii) The Accounts, Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

Background Papers: CIPFA Code of Practice 2006 and Internal Audit Reports.
Consultation: N/A
Wards affected: All
Contact: Paul Miller, Chief Internal Auditor.

Background Information

1. Introduction

The purpose of this report

1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since September 2012.

2. Statutory and Policy Background

Statutory Background

2.1 The Accounts and Audit (England) Regulations 2011 state that "a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." This responsibility is discharged through the Council's Internal Audit Section.

Relevant Government Policy / Professional Standards

2.2 Internal Audit follows the standards set out in the "*Code of Practice for Internal Audit in Local Government*" published by the Chartered Institute of Public Finance and Accountancy known as CIPFA.

Relevant Council Policy

2.3 Internal Audit is conducted in accordance with the Council's Constitution. Financial Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the results of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

3. Summary of Audit Findings

3.1 Section 106 Agreements

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE

The Section 106 system is a complex process involving many different departments and officers. The introduction of a new Section 106 database has afforded greater control over the process; however, a few control weaknesses were identified. For example, the monitoring of Section 106 obligations was not undertaken whilst the responsible officer was on long term leave. Retrospective checks have now been undertaken to identify and correct any data errors. In future, appropriate management checks will be undertaken to ensure that all responsibilities are effectively covered when key officers are on long term leave.

3.2 Reprographics

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE

The Reprographics Unit has a small staffing complement but is able to maintain an adequate system of internal control. Some weaknesses were identified and recommendations for improvement made which have been agreed. Priority will be given to service planning, projections of future levels of business from internal and external users, and reviewing charging arrangements for internal and external works.

3.3 Purchase Cards

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE *(previously assessed as "Moderate Assurance")*

Although the use of purchase cards remains an inherently high risk method for obtaining goods and services on behalf of the Council, there is now a sound system of control in place designed to reduce the level of risk. A few control weaknesses were identified, for example, the auditor was unable to find any evidence that a business case had been approved for a new cardholder. The auditor was also concerned that there have been delays in the submission of some purchase card logs which has necessitated a further tightening of procedures. In one department, however, it is acknowledged that the delay had been caused by the line manager who had requested sight of supporting receipts.

3.4 Use of Consultants

OVERALL AUDIT OPINION: MODERATE ASSURANCE

At the time of the audit, there were no procedures in place for the engagement and management of consultants, and some of the documentation requested from officers during the audit could not be produced. Audit testing against best practice guidelines identified inconsistencies in approach, and in particular, the following shortcomings were identified:

- Business cases are not always completed.
- Letters of appointment / contracts detailing objectives and terms and conditions of appointment are not always obtained. Of particular concern is that the Council is often bound by the consultant's own terms and conditions.
- Total expenditure on the use of consultants is difficult to ascertain due to expenditure being miscoded.

The Internal Audit report makes reference to the work undertaken by the Business Improvement Working Group and supports the findings of this group. The Council's Contract Standing Orders are currently being updated and will include a section on the use of consultants. Supporting procedures for this area will be incorporated into the new Procurement Code which will form part of the Council's Constitution.

3.5 Emergency Planning

OVERALL AUDIT OPINION: MODERATE ASSURANCE

A number of weaknesses were identified relating to controls and processes. The main concern relates to the lack of an up to date Emergency Plan and Community Risk Register to ensure compliance with the requirements of the Civil Contingencies Act 2004. The auditor also reported on the need for the Council's Corporate Management Team (CMT) to receive response action 'refresher' training covering the process which should be followed in the event of an emergency (particularly covering the Emergency Planning Officer role should that officer be unavailable). Remedial action has been agreed with the Head of Housing and Community Development, which will include the provision of prompt sheets for members of CMT.

3.6 Repairs and Maintenance

OVERALL AUDIT OPINION: MODERATE ASSURANCE

A number of weaknesses were identified with some of the main systems of control and processes within the department. In particular it was identified that condition surveys are not being carried out in accordance with planned frequencies and two of the Council's properties were not included on the inspection schedule. Furthermore, there was no plant and equipment register providing details of when equipment was installed, maintenance dates and replacement / servicing details. A review of the weekly town centre inspections programme was carried out, and it was identified that these inspections were not being recorded on inspection control forms but were merely a visual inspection. A number of agreed actions have been agreed to remedy the control weaknesses identified, and it is understood that some of these have already been implemented.

4. Special Investigations / Project Support Work

4.1 Project Assurance Core Team (PACT)

The Chief Internal Auditor is a member of PACT, and monthly meetings are convened with project managers to identify current risks and issues and to independently track progress to ensure that projects are being delivered within budget and in accordance with agreed timescales. The main objective of PACT is to provide a level of independent challenge in respect of the Council's key projects, and to report monthly to CMT on progress. A quarterly report is also submitted to the Finance and Performance Working Group.

4.2 Risk Management Review

Internal Audit is in the process of undertaking a comprehensive review of the risk management process, and structured meetings are currently taking place with departmental risk champions. The objectives of these meetings are twofold:

i) To improve the way in which departmental risk registers are being completed and managed, and in particular, to provide some specific guidance to help ensure consistency of approach across all departments.

ii) To engage with risk champions to identify any concerns they may have, and to identify ways of improving the process.

Once the meetings with risk champions have been completed, a small working group will be formed to review and update the risk management procedure manual.

4.3 Confidentiality of Information

Internal audit has undertaken a piece of work to tighten systems and controls to ensure that confidential or sensitive information is restricted to those who require access. Meetings have been held with Members and officers, and specific training will be provided by the Information Management Officer to address areas for improvement.

5. Audit Plan ~ Progress to date

5.1 Concerns were raised at the March 2012 Accounts, Audit and Governance meeting about the adequacy of internal audit resources. As at the 23rd November, the audit plan for 2012/13 is considered to be at risk due to the incidence of two recent special investigations (one of which is currently ongoing). As a consequence, it is anticipated that one or two audits may not be completed within the current year. Priority will be given to completing the key financial systems audits which are currently on track. For the reasons stated, some of the planned governance and proactive fraud work has been delayed and NFI work is also on hold until resources become available.

6. Audit Follow ups

6.1 Table 1 below provides a summary of agreed actions which haven’t yet been implemented. It shows the total number of agreed actions which have been followed up for the previous three financial years, and the number of agreed actions which haven’t yet been implemented. Details of the outstanding items can be found in Appendix 3 which is an ‘exempt’ document.

Table 2 shows agreed actions implemented expressed as a percentage of the total of agreed actions followed up.

The new reporting process has resulted in a marked improvement in terms of outstanding actions being implemented, which is helping to strengthen the Council’s control environment. A number of agreed actions which are currently outstanding relate to amendments to the Council’s Financial Regulations (FRs) and Contract Standing Orders (CSOs). A corporate review of FRs and CSOs is now nearing completion, and it is hoped that the proposed changes will be approved by Council on 19th December 2012.

The Chief Internal Auditor will continue to report on progress, and figures for 2012/13 will be included in the March 2013 quarterly update report.

Table 1 ~ Outstanding Agreed Actions

Financial Year	Total Actions	No. of Agreed Actions which are Outstanding			
		Mar 2012	Jun 2012	Sep 2012	Dec 2012
2009/10	128	33	21	18	16
2010/11	155	49	34	31	11
2011/12	*126*	N/A	36	41	39
		Totals	91	90	66

***Please Note**: The number of agreed actions total for the previous financial year (i.e. 2011/12) increases when agreed actions are formally followed up. The current total of agreed actions followed up as at 21/11/12 was 126.*

Table 2 ~ Percentage of Agreed Actions Implemented

Financial Year	Mar 2012	Jun 2012	Sep 2012	Dec 2012
2009/10	74%	84%	86%	88%
2010/11	68%	78%	80%	93%
2011/12	N/A	45%	59%	69%

7. Next Steps

7.1 Not applicable.

8. Outcome of Consultations

8.1 Not applicable.

9. Other Courses of Action Considered but Rejected

9.1 Not applicable

10. Staffing Consequences

10.1 There are no direct staff consequences.

11. Financial Consequences

11.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action

Consequences of the proposed action on:	
Risks Risk Assessment attached Yes/No	All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit opinion (see Appendix 2 for definitions). No
Crime and Disorder	This report has no effect on Crime & Disorder issues.
Equality and Diversity/ Human Rights Equalities Impact Assessment attached Yes/No/Not relevant	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values. Not relevant.
Sustainability	This report has no effect on sustainability.

Appendix 2

Categorisation of Audit Opinions

Full Assurance	**System of Control**: There is a sound system of control in place which minimises risk to the Council; and **Compliance with Controls**: Audit testing identified that all expected controls are being consistently applied.
Substantial Assurance	**System of Control**: Whilst there is basically a sound system of control (i.e. key controls are in place), there are some weaknesses which may place the Council at risk in a few areas; and/or **Compliance with Controls**: Audit testing identified a lack of compliance with controls in a few areas.
Moderate Assurance	**System of Control**: There are some weaknesses in the system of control (i.e. the absence of two or more key controls) which is placing the Council at risk in a number of areas; and/or **Compliance with Controls**: Audit testing identified a lack of compliance with two or more key controls.
No Assurance	**System of Control**: The system of control is very weak or non-existent, which is placing the Council open to significant risk: and/or **Compliance with Controls**: Audit testing identified a high number of key controls which are not being complied with.

Agenda Item 9

Report to Accounts, Audit and Governance Committee

12th December 2012

By the Director of Corporate Resources

INFORMATION REPORT

Not exempt

Risk Management – Quarterly Update Report

Executive Summary

This report includes an update on the Corporate Risk Register for consideration and provides an update on progress with the quarterly departmental risk register reviews. The report also provides an update on progress in terms of the risk management action plan for 2012/13 which forms part of the Council's Risk Management Strategy.

Recommendations

The Committee is recommended to:

1) Consider the updated version of the Corporate Risk Register (see Appendix 2).

2) Note the progress which has been made with the departmental risk registers.

3) Note the progress in implementing the action plan contained within the Risk Management Strategy (see Appendix 3).

Reasons for Recommendations

As part of good governance, it is important that these documents are considered by Members.

Background Papers:	Management Information obtained from Covalent
Consultation:	The Corporate Management Team and Chief Internal Auditor
Wards affected:	All
Contact:	Paul Miller, Ext 5319

Background Information

1. Introduction

The Purpose of this Report

1.1 The Accounts, Audit and Governance Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.

1.2 The deadline for completing the second quarter review of departmental risk registers has now passed, and feedback on progress is summarised in this report.

2. Risk Management Update

2.1 Corporate Risk Register

The Corporate Management Team (CMT) has reviewed all outstanding actions on the Corporate Risk Register and comments have been updated to reflect the current position for each risk.

CRR38 has been added as a new risk which relates to the new Community Infrastructure Levy (CIL) Scheme which comes into effect in April 2014. The implementation timescale for the new scheme is already extremely tight, and any further delay in the approval of the Horsham District Planning Framework will lead to a loss of income in CIL.

CMT has agreed that CRR27 should be removed from the "live" Corporate Risk Register as all planned actions have been implemented and the level of risk has been reduced to an acceptable level.

2.2 Departmental Risk Registers

A total of 12 out of 18 departmental risk register reviews (67%) were completed and signed off by the cut-off date. All reviews which were outstanding have now been completed.

2.3 Risk Management Strategy ~ Action Plan Progress Update

- The Risk Management Strategy for 2012 to 2015 has now been formally approved and has been posted on the Council's Intranet. The Strategy includes an action plan for 2012/13 (see Appendix 3), and good progress is being made.
- The new Operational Risk Management Group (ORMG) met for the first time on 21st September, and minutes of the meeting were taken to CMT.
- The next meeting of the ORMG has been scheduled for 18th December, and it is intended that health checks will be carried out on four departmental risk registers at this meeting.
- Internal audit are currently engaging with all risk champions to identify ways of improving the risk management process. Once the meetings with risk

champions have been completed, a small working group will be formed to review and update the risk management procedure manual. It is anticipated that this piece of work will be completed early in the New Year.

3. Next Steps

3.1 Not applicable.

4. Outcome of Consultations

4.1 Not applicable.

5. Other Courses of Action Considered but Rejected

5.1 Not applicable.

6. Staffing Consequences

6.1 There are no direct staff consequences.

7. Financial Consequences

7.1 There are no financial consequences.

Appendix 1

Consequences of the Proposed Action

Consequences of the proposed action on:	
Risks Risk Assessment attached ~ No	The report provides an update on the Council's corporate risks and how these are being managed by the Corporate Management Team. See Appendix 2 for the latest version of the Council's Corporate Risk Register.
Crime and Disorder	Effective risk management helps to ensure that the Council achieves its objectives within this area.
Equality and Diversity/ Human Rights Equalities Impact Assessment attached Yes/No/Not relevant	Effective risk management helps to ensure that the Council achieves its objectives within this area. Not relevant.
Sustainability	This report has no effect on sustainability.

Statutory and Policy Background

Statutory Background	The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2003 (amended 2006): "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of the body's functions and which includes arrangements for the management of risk".
Relevant Government Policy / Professional Standards	Risk management is an essential element of good corporate governance. The CIPFA/SOLACE Framework on Corporate Governance requires councils to establish and maintain a systematic strategy, methodology and processes for managing risk. They must also report publicly on the effectiveness of these arrangements.
Relevant Council Policy	The Council's Risk Management Strategy 2012/15 has been published on the Council's Intranet. The Corporate Risk Register is managed by the Council's Corporate Management Team, and each Head of Service is responsible for managing one or more departmental risk registers. When undertaking major projects, a risk log is maintained which is a requirement of the PRINCE 2 Lite methodology adopted by the Council.

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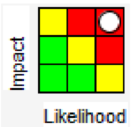
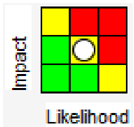
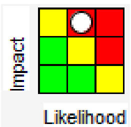
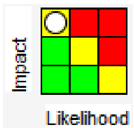
Corporate Risk Report with Actions December 2012 V3

Generated on: 29 November 2012

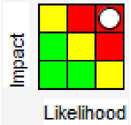
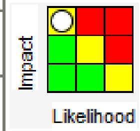
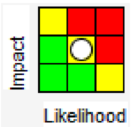
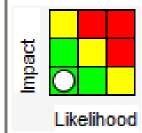
= Completed

= Assigned & in progress

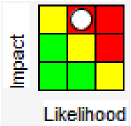
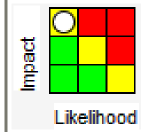
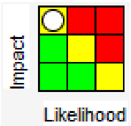
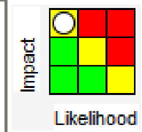
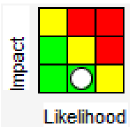
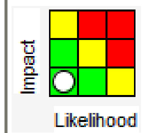
= Overdue

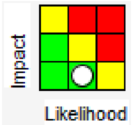
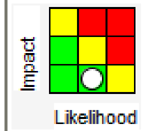
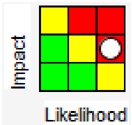
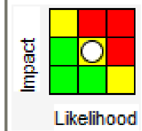
Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR01 Failure to identify appropriate actions to deal with reduced funding.	Job losses, reduced income, capital receipts reduced or not realised, service cuts (non-statutory functions, increased workload (e.g. debt recovery), and possible damage to reputation. Loss of discretionary services impacting on quality of life.	Katharine Eberhart		CRR.01.8 Develop & Deliver a new Medium Term Financial Strategy (to Council 19/12/12).	CMT			December 2012 Update: A Medium Term Financial Strategy is due to be presented to Council on 19th December 2012 for approval. Raymond Warren has been appointed as the Council's Business Transformation Manager. Key projects and timelines have been identified.
				CRR.01.9 Develop and deliver Business Transformation Programme. Business Transformation Team to be in place (& interim manager appointed if necessary) (by 30/9/12).	CMT			
				CRR01.01.10 Scope key projects and identify timelines. together with dependencies and critical resource requirements (by31/10/12).	CMT			
CRR05 Inadequate "information security"	Financial penalties & damage to reputation.	Peter Dawes		CRR.05.1 Develop an ICT Security Policy (by 30/09/12)	Peter Dawes			December 2012 Update: [1]
				CRR.05.2 Develop processes & procedures which underpin the IT Security Policy (by 31/12/14, then annual review).	Peter Dawes			
				CRR.05.4 Provide a programme of training on Information Security to all staff (by 31/12/13, then ongoing).	Peter Dawes			

[1] A suite of information security policies has now been approved by the CenSus Board. Standards, guidelines and procedures are now being developed to underpin the policies, and officer and Member training has been programmed. All officers will receive training by the end of December 2012, and Member training will be rolled out by 31/3/13.

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
				CRR.05.8 Member training will be provided to ensure the use of HDC e-mail only (or emails received / sent from private email boxes are copied to HDC email box) (by 30/3/13).	Peter Dawes			
CRR06 Lack of a tested Business Continuity Plan	Disruption to service, legislative breaches (if critical paperwork lost), loss of income & failure to achieve objectives.	Natalie Brahma-Pearl		CRR.06.1 Develop corporate business continuity plan and regular review (to be completed by 31/10/12).	Trevor Beadle			December 2012 Update:[2]
				CRR.06.2 Develop departmental business continuity plans and regular review (by 30/9/12).	Trevor Beadle			
				CRR06.3 To field test reciprocal business recovery arrangements with Crawley Borough Council.	Trevor Beadle			
CRR21 Whilst there is a formal cascade system in place for calling out staff in the event of an emergency, there is no formal arrangement in place for calling out support services such as ICT & Buildings Maintenance staff (31/3/13).	An incident which cannot be resolved causing service interruptions at HDC Offices or other buildings for which we are responsible	Natalie Brahma-Pearl		CRR.21.1 Review Duty Officer and Out of Hours system (by 31/3/13)	Peter Dawes			December Update: Out of Hours issues to be identified as part of the review of Ts & Cs. Tentative discussions with providers regarding Duty Officer System. Also, consider including as part of the customer Service work being undertaken by the Transformation Team.
				CRR.21.2 Review appropriate Role Profiles to ensure that Out of Office cover is addressed (by 31/3/13)	Peter Dawes			

[2] (1) 95% of all services have BIA (part 1 plans) completed. Exceptions are 2 departments where changes/lack of assigned staff have delayed completion.
(2) Corporate BIA completed.
(3) Draft BCP has been developed and agreed by Tom Crowley & Natalie Brahma-Pearl. Considered by CMT 8/11/12 and draft BCP agreed.
(4) Part 2 templates will be sent for completion by end November.
(5) Plan to run a table top exercise in w/c 10/12/12 over half a day with CMT members.

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR24 Loss of Telephone System due to hardware failure	Failure of business objectives Non compliance with statutory requirements Financial business loss Disruption of service Damage to reputation	Peter Dawes		CRR.24.02 Explore partnership opportunities.	Peter Dawes			December 2012 Update: Dependency decision now taken regarding infrastructure. Detailed specification being drawn up for managed service solution and project started to upgrade internal networks. Installation to be complete by June 2013.
				CRR.24.03 Consider acquisition of new system - options report will be produced by December 2012.	Peter Dawes			
CRR27 Health & Safety ~ Failure to comply with Council Policy & Procedures and Legislative requirements	Death/serious injury/injury Non compliance with statutory requirements Financial business loss Damage to reputation	Tom Crowley		CRR.27.03 Develop Action Plan to address risks identified (By 31/1/12)	Peter Dawes			December 2012 Update: Actions have been implemented. This risk should now be removed from the register.
				CRR.27.04 An update on progress regarding implementation of the action plan will be presented to CMT in April 2012.	Peter Dawes			
CRR29 Pressure on the Council's financial position due to new government initiative to localise Council Tax Benefit	Non compliance with statutory requirements. Financial business loss. Disruption of service. Damage to reputation.	Katharine Eberhart		CRR.29.01 Member Advisory Group (31/1/13)	Katharine Eberhart			December 2012 Update: Report will go to Council on the 19th of December. Losses on CTB will be partially offset by technical reforms.
				CRR.29.02 Postponing any change to current policy for a year (31/1/13)	Katharine Eberhart			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR30 Potential financial loss due to new government initiative for the localisation of business rates	Non compliance with statutory requirements. Financial business loss. Disruption of service. Damage to reputation.	Katharine Eberhart		CRR.30.1 National updates (31/3/13)	Katharine Eberhart			December 2012 Update: The latest change in policy by the government (21st November) means that the pooling option will not progress. Officers will be meeting internally to determine the process for monitoring business rates income.
				CRR.30.2 County Working Group (31/3/13)	Katharine Eberhart			
CRR31 Potential financial loss due to new government initiative to move towards the Universal Credit.	Non compliance with statutory requirements. Financial business loss. Disruption of service. Damage to reputation.	Katharine Eberhart		CRR.31.1 Review Updates - National Guidelines (31/3/13)	Katharine Eberhart			December 2012 Update: Census and HDC staff met in October to discuss impact of proposed changes. Information from government is limited and we do not have sufficient information to determine a realistic response at this stage.

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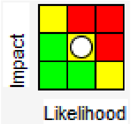
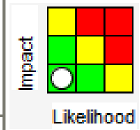
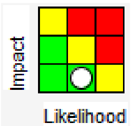
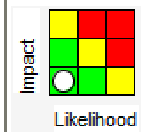
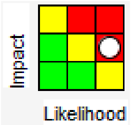
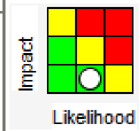
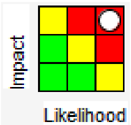
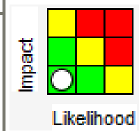
Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR34 Poor performance and/or decision-making following a reduction in the number of directors, increasing work pressures on Directors, Heads of Service and Line Managers	Failure of business objectives	Tom Crowley		CRR.34.1 Regular 1-2-1's with Directors and Heads of Service (Monthly)	Tom Crowley; Natalie Brahma-Pearl; Katharine Eberhart			December 2012 Update: Conversations continue to take place between Directors, Heads of Directors, Heads of Services and their respective line managers to assess perceptions and explore ways of detecting problems. The business transformation programme (including the review of terms and conditions) will present further challenges in the coming months.
				CRR.34.2 Review at CMT (Bi-Monthly)	Tom Crowley, Natalie Brahma-Pearl, Katharine Eberhart			
				CRR.34.3 Review of performance statistics (Monthly)	Tom Crowley, Natalie Brahma-Pearl, Katharine Eberhart			
CRR36 Legislative breach due to failure to update policies, systems and procedures in readiness for the implementation of the Localism Bill	Non compliance with statutory requirements. Damage to reputation	Katharine Eberhart		CRR.36.1 Project Plan detailing actions	Katharine Eberhart			December 2012 Update: Localism Action Plan is being implemented and regularly reviewed by CMT. Two reports going to Cabinet on 29th November.
				CRR.36.2 Implement Action Plan (30/9/13)	Katharine Eberhart			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Action Code & Title	Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR37 The challenge of delivering the day job and projects against a background of business transformation & new initiatives increases pressure on staff and stress-related absences	Disruption of service	Tom Crowley		CRR.37.1 Develop Business Transformation Project Plan (30/6/12)	Tom Crowley			December 2012 Update: An outline plan has been drafted. Terms and Conditions changes to be considered by Personnel Committee January 2013. Comprehensive communication and engagement plan in place. Sickness rates will be regarded as a key indicator.
				CRR.37.2 Member Advisory Group will set clear priorities (31/7/12)	Tom Crowley			
				CRR.37.3 Monitor performance statistics (Monthly)	Tom Crowley			
CRR38 Failure to implement the Community Infrastructure Levy (CIL) Scheme by April 2014, due to delay in preparing the District Planning Framework	Failure of business objectives, substantial financial loss and damage to reputation	Tom Crowley		CRR.38.1 Raise Member awareness of the impact of further delays to the adoption of the District Planning Framework	Jill Scarfield			December 2012 Update: New Risk added.
				CRR.38.2 Explore options available for condensing the CIL policy implementation timescales (by 31/12/12)	Jill Scarfield			

ACTION PLAN 2012 to 2013 **APPENDIX 3**

	Action	Responsibility	Target Date	Update
1.	Establish terms of reference and membership of the Risk Management Group.	CMT	10/05/12	Completed.
2.	Set up an Operational Risk Management Group to monitor and report on the effectiveness of risk management, promoting good practice.	Director of Corporate Resources	30/06/12	Completed. First meeting took place 21/9/12, and notes of meeting were taken to CMT. Next meeting scheduled for 18th December.
3.	Set up a rolling programme of Risk Register health checks for all services and major projects.	Risk Management Group	Quarterly	To commence at the December meeting.
4.	Review and rationalise the Risk Management procedure manual.	Chief Internal Auditor	~~31/07/12~~ 31/01/13	Work in progress. Internal Audit is currently meeting with all risk champions. Meetings due to be completed by mid-December. A small working group will then be formed to review the procedures.
5.	A repository of risks from previous projects will be developed which will be made available to all project managers.	Systems Development Manager	~~31/10/12~~ 31/01/13	Solution is under development. This will be reviewed at the January PACT meeting.
6.	Initiate a training programme for key officers within departments, using scenarios which are relevant to the service area.	Chief Internal Auditor	30/03/13	This will be dependent upon the outcomes of the review currently in progress (see 4 above).