



SPECIAL AUDIT COMMITTEE

Monday, 14th September, 2020

at 6.30 pm

Until further notice, all council meetings will be held remotely - you can view the meeting by clicking on the following link : <https://youtu.be/-ckyvNLO3JM>

Committee Membership

Cllr Nick Sharman (Chair)
Cllr Michelle Gregory (Vice-Chair)
Cllr Brian Bell
Cllr Anna Lynch
Cllr Patrick Spence
Cllr Harvey Odze
Cllr Clare Potter

Tim Shields
Chief Executive

Contact:
Peter Gray
Governance Services
Tel: 020 8356 3326
Email: Peter.Gray@hackney.gov.uk

The press and public are welcome to attend this meeting

AGENDA

Monday, 14th September, 2020

ORDER OF BUSINESS

Item No		Page No
1	Apologies for absence	
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5	Statement of Accounts 2019/20 (Appendix to Follow)	11 - 20
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Access and Information

Location

Hackney Town Hall is on Mare Street, bordered by Wilton Way and Reading Lane, almost directly opposite Hackney Picturehouse.

Trains – Hackney Central Station (London Overground) – Turn right on leaving the station, turn right again at the traffic lights into Mare Street, walk 200 metres and look for the Hackney Town Hall, almost next to The Empire immediately after Wilton Way.

Buses 30, 48, 55, 106, 236, 254, 277, 394, D6 and W15.

Facilities

There are public toilets available, with wheelchair access, on the ground floor of the Town Hall.

Induction loop facilities are available in the Committee Rooms and the Council Chamber

Access for people with mobility difficulties can be obtained through the ramp on the side to the main Town Hall entrance.

Copies of the Agenda

The Hackney website contains a full database of meeting agendas, reports and minutes. Log on at: www.hackney.gov.uk

Paper copies are also available from local libraries and from Governance Services whose contact details are shown on page 1 of the agenda.

Council & Democracy- www.hackney.gov.uk

The Council & Democracy section of the Hackney Council website contains details about the democratic process at Hackney, including:

- Mayor of Hackney
- Your Councillors
- Cabinet
- Speaker
- MPs, MEPs and GLA
- Committee Reports
- Council Meetings
- Executive Meetings and Key Decisions Notices
- Register to Vote
- Introduction to the Council
- Council Departments

RIGHTS OF PRESS AND PUBLIC TO REPORT ON MEETINGS

Where a meeting of the Council and its committees are open to the public, the press and public are welcome to report on meetings of the Council and its committees, through any audio, visual or written methods and may use digital and social media providing they do not disturb the conduct of the meeting and providing that the person reporting or providing the commentary is present at the meeting.

Those wishing to film, photograph or audio record a meeting are asked to notify the Council's Monitoring Officer by noon on the day of the meeting, if possible, or any time prior to the start of the meeting or notify the Chair at the start of the meeting.

The Monitoring Officer, or the Chair of the meeting, may designate a set area from which all recording must take place at a meeting.

The Council will endeavour to provide reasonable space and seating to view, hear and record the meeting. If those intending to record a meeting require any other reasonable facilities, notice should be given to the Monitoring Officer in advance of the meeting and will only be provided if practicable to do so.

The Chair shall have discretion to regulate the behaviour of all those present recording a meeting in the interests of the efficient conduct of the meeting. Anyone acting in a disruptive manner may be required by the Chair to cease recording or may be excluded from the meeting. Disruptive behaviour may include: moving from any designated recording area; causing excessive noise; intrusive lighting; interrupting the meeting; or filming members of the public who have asked not to be filmed.

All those visually recording a meeting are requested to only focus on recording councillors, officers and the public who are directly involved in the conduct of the meeting. The Chair of the meeting will ask any members of the public present if they have objections to being visually recorded. Those visually recording a meeting are asked to respect the wishes of those who do not wish to be filmed or photographed. Failure by someone recording a meeting to respect the wishes of those who do not wish to be filmed and photographed may result in the Chair instructing them to cease recording or in their exclusion from the meeting.

If a meeting passes a motion to exclude the press and public then in order to consider confidential or exempt information, all recording must cease and all recording equipment must be removed from the meeting room. The press and public are not permitted to use any means which might enable them to see or hear the proceedings whilst they are excluded from a meeting and confidential or exempt information is under consideration.

Providing oral commentary during a meeting is not permitted.

ADVICE TO MEMBERS ON DECLARING INTERESTS

Hackney Council's Code of Conduct applies to **all** Members of the Council, the Mayor and co-opted Members.

This note is intended to provide general guidance for Members on declaring interests. However, you may need to obtain specific advice on whether you have an interest in a particular matter. If you need advice, you can contact:

- The Director, Legal;
- The Legal Adviser to the committee; or
- Governance Services.

If at all possible, you should try to identify any potential interest you may have before the meeting so that you and the person you ask for advice can fully consider all the circumstances before reaching a conclusion on what action you should take.

1. Do you have a disclosable pecuniary interest in any matter on the agenda or which is being considered at the meeting?

You will have a disclosable pecuniary interest in a matter if it:

- relates to an interest that you have already registered in Parts A and C of the Register of Pecuniary Interests of you or your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner;
- relates to an interest that should be registered in Parts A and C of the Register of Pecuniary Interests of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner, but you have not yet done so; or
- affects your well-being or financial position or that of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner.

2. If you have a disclosable pecuniary interest in an item on the agenda you must:

- Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you (subject to the rules regarding sensitive interests).
- You must leave the room when the item in which you have an interest is being discussed. You cannot stay in the meeting room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision.
- If you have, however, obtained dispensation from the Monitoring Officer or Standards Committee you may remain in the room and participate in the meeting. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a pecuniary interest.

3. Do you have any other non-pecuniary interest on any matter on the agenda which is being considered at the meeting?

You will have 'other non-pecuniary interest' in a matter if:

- i. It relates to an external body that you have been appointed to as a Member or in another capacity; or
- ii. It relates to an organisation or individual which you have actively engaged in supporting.

4. If you have other non-pecuniary interest in an item on the agenda you must:

- i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you.
- ii. You may remain in the room, participate in any discussion or vote provided that contractual, financial, consent, permission or licence matters are not under consideration relating to the item in which you have an interest.
- iii. If you have an interest in a contractual, financial, consent, permission or licence matter under consideration, you must leave the room unless you have obtained a dispensation from the Monitoring Officer or Standards Committee. You cannot stay in the room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision. Where members of the public are allowed to make representations, or to give evidence or answer questions about the matter you may, with the permission of the meeting, speak on a matter then leave the room. Once you have finished making your representation, you must leave the room whilst the matter is being discussed.
- iv. If you have been granted dispensation, in accordance with the Council's dispensation procedure you may remain in the room. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a non pecuniary interest.

Further Information

Advice can be obtained from Dawn Carter-McDonald, Interim Director of Legal on 020 8356 6234 or email dawn.carter-mcdonald@hackney.gov.uk



FS 566728



AUDIT COMMITTEE

MONDAY, 27TH JULY, 2020

Present: **Councillors:**

Cllr Nick Sharman in the Chair
Cllr Michelle Gregory (Vice-Chair),
Cllr Brian Bell and Cllr Patrick Spence

Officers: Ian Williams, Dawn Carter-McDonald,
Michael Honeysett, Michael Sheffield, James
Newman

1. Apologies for absence

1.1 Apologies for absence were submitted on behalf of Councillor Odze and Potter.

2. Declarations of interest

2.1 Councillor Gregory declared that she as member of a TMO Board.

3. Minutes of the previous meeting

RESOLVED: To agree the minutes of the previous meeting.

4. Finance Update

4.1 The Chair introduced the item, stating that the Committee would wish to be assured that that there were no immediate concerns in regard to the Councils' finances and its ability to continue with its activities and that there were plans in place to cope with the complex issues that will arise from budget changes. He said that the Audit Committee should be kept informed of this work and involved in the process. Three areas were to be focused on:

- The position in the current year in regard to the General Fund and the Housing Revenue Account
- Next year's budget and the priorities emerging and numbers of priorities to ascertain the scale of the challenge
- The Executive response and plans put in place to cope with challenges

4.2 Ian Williams presented to the Committee on the overall financial position, as follows:

- A third tranche of government funding amounting to £3.5m for Hackney
- Compensation Scheme announced for loss of income with the first 15% Local Authority's own risk
- Government to amend regulations in order that collection fund deficits in respect of Council tax and business rates can be applied over the following 3 financial years
- An estimated shortfall of approximately 9m in 2020/21 for the General Fund after estimated government support
- Pressure of 8m on the Housing Revenue Account
- Work was ongoing to mitigate shortfalls

4.3 The Chair asked if the amount of £1.9m non-Covid overspend was an additional budget pressure and if it was included in SEND. Ian Williams confirmed that this amount did not include SEND. He told the Committee that the current financial position eroded the Council's ability to be flexible in its activities and tightened the ability to invest. Work was underway to cut back on costs, for example, in the agency spend budget. The Capital Programme was being reviewed also, for instance, looking at slowing down some schemes.

4.4 Councillor Lynch asked for an update on workforce at the Council given current changing circumstances, in particular in relation to redeployment and recruitment. Ian Williams confirmed that the Council was looking at opportunities to repurpose and redefine roles with large numbers of staff working from home. The staff survey demonstrated that many staff considered that they worked more effectively from home. All Call Centres had been consolidated into one. Consideration was being given to how the corporate estates are used. He considered that the Audit Committee could have involvement in the process. Councillor Rebecca Rennison confirmed that staff would be consulted on any staffing changes that were carried out and confirmed the Council's commitment to its staff. She told the Committee that the reporting on the overall financial position was a transparent process. The Council was still learning on this, in particular in relation to the impact on the Council's income and reports back would be made on this.

4.5 Ian Williams told the Committee that work was underway on delegation levels, tightening up on the general control environment.

4.6 The Chair asked that an update on the overall financial position be added to the agenda for the September meeting of the Committee.

Action: Ian Williams.

4.7 Ian Williams reported on the medium term forecast:

- There was to be a 2020 spending review to run for three years in relation to revenue spend and four years for capital spend. There were opportunities for the Council to submit representations
- There was to be a call for evidence on the business rate review with a revaluation to better reflect the Covid-19 environment
- Even with an increase in Council tax of 4% the Council would need £32/33m for next year to balance the budget
- Pre-Covid forecast of £13m required
- Fairer funding would be implemented in the next financial year

- People paying Council Tax in cash are now able to get out to do so
- There was improved engagement
- The New Homes bonus will come to an end or be re-focused

4.8 In response to a question from the Chair, Ian Williams reported on the current pressures to the HRA with a deficit of £8m. There had been a loss of rental income and work was ongoing with housing and IT on this. Ian Williams would make a more detailed update on the HRA to the September meeting of the Committee, including on the interface between Universal Credit and rental payments and how any gap will be dealt with.

Action: Ian Williams

4.9 Councillor Anna Lynch stated that the evictions scheme would be lifted soon and asked what plans were in place in relation to this. She said that some residents may not have been paying their rent and whether there was capacity to provide emergency homes for these residents. Councillor Rebecca Rennison stated that it was considered that the eviction scheme should be extended for tenants. She said that the Government had set the Local Government housing allowance at 30% of medium rent. The Council could also assist with discretionary housing payments. The Council was encouraging tenants who were struggling to pay their rent to engage with the Council. A campaign was underway to ensure that the housing benefit for the housing rental sector was returned to a level where people could afford to rent in the Borough.

4.10 Ian Williams told the Committee that there was much uncertainty in relation to the revised medium term forecast beyond the next financial year.

- Key policy initiatives were emanating from Central Government and work was required in relation to health and social care.
- It was likely that fairer funding would be phased in.
- Consideration was being given to the impact of the collection fund deficit
- Even with a 4% increase in Council Tax, the yield from it may be lower than it was expected to collect for the current financial year
- Income streams continued and substantial money was being collected
- Significant sums were being received from Central Government
- £85m liquid cash from various investments
- Continuing to look at sources of borrowing as required

4.11 Ian Williams reported on next steps:

- Work was underway on the use of agency staff
- Review of vacant posts
- Repurposing roles, if necessary
- Reviewing capital schemes
- Bearing down on expenditure forecasts to mitigate loss of income.
- The importance of having staff and residents engagement
- Positive work on finance was being carried out the Audit/ Scrutiny/ Executive Working Group

4.12 The Chair reported that he was reassured on the cash position of the Council and that steps had been taken to ensure that there were no immediate issues around solvency. He said that further deeper needs had been uncovered with less resources

available. He referred to the importance of the Audit/ Executive oversight into the medium term financial position.

4.13 Councillor Rennison confirmed the importance of working with Audit and Scrutiny on the Council's financial position identifying any issues earlier on and having effective oversight of the budget position. The priority was to do what benefits resident the most.

RESOLVED: To note the update on the Council's financial position.

5. Audit of accounts update (Verbal)

5.1 Ian Williams told the Committee of the challenges for the external audit process in the current year. Weekly meetings were being held with the External Auditors who aimed to substantially complete work on the audit of accounts by mid-august. Ian Williams reported a focus on the impact of Covid-19 on the Council's finances. The auditors would have to be satisfied that the organisation would be a going concern a year from the date of the audit. The audit was progressing well with a special Audit Committee in September to sign off the statement of accounts.

5.2 Councillor Gregory stated that the potential reduction in valuations would occur in the next financial year and would the reduction be factored into next year's accounts.

5.2 Michael Honeysett told the Committee that the work around valuations of property and equipment was impacted by Covid-19, extending the time taken to complete the audit. He said that any reductions in valuations would be likely to impact the new financial year rather than the current year, although this is an area of increased audit focus. The likely reduction in the value of assets would be factored into next year's accounts.

5.3 Councillor Brian Bell stated that there was anecdotal evidence that some members of staff were taking early retirement because they were unhappy with the current working arrangements. He asked if a lot of requests for early retirement were being received. Ian Williams told the committee that the voluntary retirement scheme had been carried out in the previous year, with a number of staff taking voluntary redundancy. He said the option was available but with consequent reductions in entitlement. Ian Williams reported that that had been no significant increase in requests for early retirement.

5.4 Lucy Nutley (Mazars) told the Committee that it had not been possible to complete the audit of accounts in time as work on valuations of property and equipment was taking longer in the circumstances of the Pandemic. Remote working was not proving as effective. Further, in relation to the material liability on the London Pension Fund (LPF), the London Pensions Fund would not be able to give an assurance on this until mid to late august. Lucy Nutley thanked staff for their work on the accounts, stating that they were a good set of accounts and that Mazars had limited comments.

RESOLVED: To note the update on the completion of the statement of accounts.

6. Capital Programme Deep Dive Review - Terms of Reference (To Follow)

6.1 The Chair told the Committee that the oversight of Council Capital had uncovered that the various ways that some of the estimates were calculated and oversight of programmes needed consideration. He said that Capital was now a very substantial part of the Council's activities and as it moved into more high risk areas, both in regard to expenditure and borrowing, there was a need to manage this in a closer way.

6.2 Ian Williams told the Committee that the proposal was to carry out a number of pieces of work to develop a better understanding of how some of the departmental forecasts are made and how best practice is applied to the development of forecasts. It would develop an understanding of the different types of capital programmes the Council had. Participants in the process had been identified from across all of the Council's activities.

RESOLVED: To agree the terms of reference for the Capital budget deep dive.

7. Any other business that in the opinion of the chair is urgent

7.1 There was no other urgent business.

Duration of the meeting: 6:30 – 7:45

Chair at the meeting on
Monday, 27 July 2020

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Financial Statements Audit 2019/20 – Annual Governance Report (Council and Pension Fund)

AUDIT COMMITTEE MEETING DATE 2020/21 14 September 2020	CLASSIFICATION: Open If exempt, the reason will be listed in the main body of this report.
WARD(S) AFFECTED All	
GROUP DIRECTOR Ian Williams, Finance and Corporate Resources	

1. CORPORATE DIRECTOR'S INTRODUCTION

- 1.1 The Annual Governance Report (ISA260) from the Council's external auditors sets out the position on the audit of the Council's and Pension Fund's financial statements and the conclusion on the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources.

2. RECOMMENDATION

- 2.1 The Audit Committee is recommended to note the contents of the report.

3. REASONS FOR DECISION

- 3.1 The external auditors are required to report to "those charged with governance" any matters arising from the annual audit of the Council's financial Statements and those of the authority's Pension Fund before they are able to issue audit opinions on those statements.

4. BACKGROUND

- 4.1 The Annual Governance Report discharges the external auditor's responsibility under the International Standards of Auditing (ISA) (UK & Ireland) 260, communication of audit matters with those charged with governance.

4.2 Policy Context

4.3 Equality Impact Assessment

For the purposes of this report, an Equality Impact Assessment is not applicable.

4.4 Sustainability

Not applicable - This report contains no new impacts on the physical and social environment.

4.5 Consultations

Not applicable

4.6 Risk Assessment

Details of the auditor's assessment of risk associated with the audit of the accounts will be outlined in the ISA260 Report.

5. EXTERNAL AUDITOR'S ISA260 REPORT

- 5.1 At the time of writing this report, work on the audits of both the Council's main accounts and the Pension Fund accounts is in the final stages and the auditor's ISA260 report is being finalised pending completion of the audit. The auditors will present the final report at the Audit Committee and a copy will be distributed to members of the Committee prior to the meeting.

- 5.2 The auditor expects to issue an unqualified audit opinion on the Council's accounts and the Pension Fund accounts; and a value for money conclusion well before the revised 30 November 2020 deadline (normally 31 July, but extended because of Covid19) by end September 2020.

- 5.3 To date the Council has received no objections to the 2019/20 accounts although work in relation to an objection to the 2016/17 accounts is still ongoing, and we have received requests to inspect documents in relation to certain aspects of the accounts in line with the public inspection regime.

- 5.4 Audit fees currently stand at £175,611 for the Council audit, and £16,168 for Pension Fund audit, however the Council audit fee is anticipated to increase, reflecting group accounts and additional work done on Property Plant and Equipment. The Council is in negotiations with the external auditor on the final fee.
- 5.5 The external auditors will present the ISA260 report at the Audit Committee meeting and take any questions from members of the Committee regarding the audit of the accounts.

6 FRC REVIEW OF 2018/19 AUDIT WORK

6.1 The FRC reviewed the Mazars 2018/19 financial statements audit and value for money work at the London Borough of Hackney. Their review concluded that significant improvements were required to the financial statements audit and that limited improvements were required to the value for money work.

6.2. Four specific areas were highlighted where the financial statements audit was deemed not to have been to the required standard in terms of the audit file evidence, as follows:

Valuation of Property, Plant and Equipment (PPE)
Valuation of pension fund assets
Capital grants
Completeness of expenditure

6.3. Mazars have confirmed that this had no impact on their overall opinion on the authority's accounts and that they believe they have addressed these issues during the 2019/20 audit ensuring that sufficient evidence is documented on their own files.

6.4. It should be noted that the review was of Mazars audit work and not the Council's processes or supporting documentation.

7 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

- 7.1 The contents of the Annual Governance Report for both the Council's Accounts and the Pension Fund Accounts from the external auditor will be agreed with myself and the appropriate Officers.
- 7.2 As set out above, the work to finalise the audit of the Council's Accounts and the Pension Fund Accounts is at the time of writing near completion. It is pleasing to note that once again it is anticipated that the auditor will be able to issue unqualified opinions in respect of both sets of accounts. In addition, we also expect to receive an unqualified conclusion relating to Value for Money.
- 7.3 The good practice of ensuring the standards are being maintained has continued in 2019/20. This is particularly noteworthy when considered in the context of significant cuts in central government financing to local government and the resulting reductions that have been made across Finance & Corporate Resources, where the corporate responsibility for production of the Statement of Accounts lies.
- 7.4. This is the second year that Mazars have audited the Council's account following the procurement of external auditing services via the Public Sector Audit Appointments Ltd (PSAA). It is pleasing to note that a good working relationship has continued with the auditors and officers of the Council. As a result of this and the resulting co-operation between officers and external auditors, it is anticipated that the main audit

for both Pension Fund and Council's main statements will be complete by the end of September.

- 7.5. I would like to place on record my thanks to the auditors for the way they have worked with my Officers to ensure that the audit is completed within the required timeframes. I am pleased to note that we have continued to enjoy a very constructive relationship with the auditors throughout the year and would like to thank them for their work over this period.
- 7.6. I would also like to thank all those officers involved with the preparation of the Statement of Accounts for the hard work that they have undertaken to ensure that we can complete the audit both on time and without qualification.

8. COMMENTS OF THE DIRECTOR OF LEGAL

- 8.1 Section 151 of the Local Government Act 1972 provides that 'every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.'
- 8.2 The proper administration of the Council's affairs includes the obligation on the Council to have its accounts audited in accordance with the Audit Commission Act 1998.
- 8.3 The Council's Constitution gives the Audit Committee responsibility for adopting the annual statement of accounts and for considering whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit which need to be brought to the attention of the Council.
- 8.4 Consideration of this report by the Audit Committee is in pursuance of the above mentioned obligations and is part of the Council's fulfilment of its duties.

APPENDICES

1 – Draft External Audit Report 2019/20 (to follow)

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

Description of document (or None)

None

Report Author	Michael Honeysett	☎ 020 8356 3332
Comments of the Group Director of Finance and Corporate Resources	Michael Honeysett	☎ 020 8356 3332
Comments of the Director of Legal Services	Dawn Carter-McDonald	☎ 020 8356 4817



Statement of Accounts 2019/20

<p>AUDIT COMMITTEE MEETING DATE 2020/21</p> <p>14 September 2020</p>	<p>CLASSIFICATION:</p> <p>OPEN</p> <p>If exempt, the reason will be listed in the main body of this report.</p>
<p>WARD(S) AFFECTED</p> <p>ALL</p>	
<p>GROUP DIRECTOR</p> <p>Ian Williams, Finance & Corporate Resources</p>	

1. CORPORATE DIRECTOR'S INTRODUCTION

- 1.1. This report presents the Accounts for 2019/20 for approval by the Audit Committee prior to the issue of the audit opinion by the external auditor.
- 1.2. The main financial statements show that we continue to manage our finances in line with the resources available.

2. RECOMMENDATION

The Audit Committee is recommended to:

- 2.1 **Approve the Council's 2019/20 Statement of Accounts prior to the audit opinion being issued.**
- 2.2 **Consider and approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.**

3. REASONS FOR DECISION

- 3.1. The Audit Committee is responsible for the approval of the financial statements under the Council's Constitution as "those charged with governance". The Regulations state that the accounts must be approved by a Committee of the Council, but not the Executive, prior to the audit opinion being issued.

4. BACKGROUND

4.1 Policy Context

The production of the Statement of Accounts and its subsequent review and adoption by Members is integral to the good financial management of the Council. It sets out the final outturn position of the authority for the preceding financial year both in terms of revenue and capital expenditure and provides a position statement regarding its wider overall financial position, thus providing the required confirmation of assumptions used in setting budgets and strategy for the future financial plans.

4.2 Equality Impact Assessment

There are no equality impact issues arising from this report.

4.3 Risk Assessment

There are no risks arising directly from this report, although clearly the timely and accurate finalisation of the accounts closure process and production of the statement of accounts is vital to ensure that the overall financial position of the Council is fully understood in order to ensure that future plans in respect of service delivery options are deliverable within the financial constraints of the Council.

5 ACCOUNTS AND AUDIT REGULATIONS

- 5.1. In recent years, the Accounts and Audit Regulations have required that the unaudited accounts are produced on or before 31st May. For the 2019/20 accounts, with the advent of Covid19, this deadline was pushed back to 31 August. Hackney's draft 2019/20 accounts were published in mid-June.
- 5.2. Prior to their submission to the auditors the Council's responsible financial officer (the Group Director of Finance & Corporate Resources) must, no later than 31st August immediately following the end of 2019/20, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year.
- 5.3. Subsequent to the above, the accounts are audited by the Council's external auditors, Mazars. Normally this would need to be finalised by 31 July but, again because of Covid19, the audit deadline has been extended for the 2019/20 accounts to 30 November, by which time:
 - (a) either by way of a committee or by the members meeting as a whole, the statement of accounts must be considered;
 - (b) following that consideration, the committee must approve the statement of accounts;
 - (c) following approval, the statement of accounts must be signed and dated by the person presiding at the committee at which that approval was given;
 - (d) publish (which must include publication on the body's website), the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor under section 9 (general report) of the 1998 Act; and
 - (e) The Group Director of Finance & Corporate Resources must also re-certify the presentation of the statement of accounts before the relevant body approves it.
- 5.4. The draft Statement of Accounts was published on the Council's website, subject to audit, following its certification by the Group Director of Finance & Corporate Resources on 19 June 2020, thus ensuring that it was available to any resident or other person entitled to formally inspect the accounts during the audit period.

6. **2019/20 STATEMENT OF ACCOUNTS**

- 6.1. At the time of writing this report, the audit of the 2019/20 Statement of Accounts is progressing towards its final stages and it is anticipated that an unqualified audit opinion will be issued by the auditor by the end of September, which is well within the required statutory date of 30th November.
- 6.2. The Statement of Accounts attached at **APPENDIX 1** is the final statement including adjustments agreed with the auditors. It is however, subject to the completion of final checks by the auditors that agreed amendments have been properly reflected. It should be noted that changes identified during the audit have had no impact on the Council's General Fund balance, HRA balance or other usable reserves.
- 6.3. The Statement of Accounts comprises the following accounting statements:

- Movement in Reserves Statement – this shows the movement in the year on the different reserves, both usable and unusable, held by the Authority.
- Comprehensive Income and Expenditure Statement – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
- Balance Sheet – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority.
- Cash Flow Statement – this shows the changes in cash and cash equivalents of the Authority during the financial year.
- Housing Revenue Account Income and Expenditure Statement – this shows separately the net cost of delivering those services provided as a landlord for domestic properties. It should be noted that these costs are also included in the Comprehensive Income and Expenditure Statement detailed above.
- Statement of Movement on the Housing Revenue Account – this shows all income and expenditure related to the HRA and its impact on the overall balance held within the HRA.
- Collection Fund Revenue Account – this shows all income and expenditure related to local taxation, including Council Tax, Non-Domestic Rates and payments to the Council's General Fund, Central Government and the local preceptor, the Greater London Authority.
- Pension Fund Accounts – these show all receipts to the Pension Fund during the year together with benefits paid, other associated costs and movements in investments, including the financial position of the Fund at the end of the financial year.

In addition, the Statement of Accounts includes:

- Narrative Statement – a statement from the Group Director of Finance & Corporate Resources, providing some context to the statements and an overview of the main issues contained therein.
- Annual Governance Statement – this sets out how the Council has complied with its adopted Code of Governance and provides details of any significant governance issues that arose during the year. This statement is subject to approval of the Committee in its own right.
- Notes to the Accounts – these provide additional disclosures and detail regarding the figures included in the main accounting statements in order to provide a greater understanding of the financial affairs of the Authority during the year. They include the accounting policies adopted in the preparation of the accounts and are reviewed regularly to ensure that we remain in full compliance with the most recent and applicable accounting standards.

- Group Accounts section - 2019/20 is Hackney's first year of Group Accounts. Two of our five wholly owned subsidiaries have been consolidated with LB Hackney's main accounts. Of the three which were not consolidated, one was not active, and the accounts of the remaining two were not financially material, and hence there was not a requirement for grouping. This is explained fully in the Group Accounts section, which sits just before the Pension Fund accounts.

7. MOVEMENT IN RESERVES STATEMENT

- 7.1. The Movement in Reserves Statement shows that the general balance on the General Fund was maintained at £15 million whilst the HRA general balance was reduced from £15 million to £11.2 million. Locally managed funds held by schools reduced by £1.76 millions to £13.195 million. A net of £11.623 million was applied from earmarked General Fund reserves including those set aside to finance the delivery of the Capital Programme, including schemes to expand and refurbish primary schools, annual maintenance and upkeep of the Borough's infrastructure and of course maintenance and improvement of the Council's Housing stock.
- 7.2. Full details of the movements in earmarked reserves are provided in note 8 to the accounts, along with brief descriptions of the purpose of each. As set out in the Group Director of Finance & Corporate Resources comments in this report, the reserves are set aside for known/potential liabilities that will arise in future financial years and have been taken into account in the Authority's Medium Term Financial Planning.
- 7.3. As set out above, many of the reserves are to be used in 2019/20 and future years to finance approved capital schemes. Others are specifically identified to help manage service pressures and costs arising from specific projects requiring one-off resource not covered by the Council's ongoing revenue budget.

8. COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

- 8.1. This statement shows the accounting cost of the provision of services by the authority. It needs to be read in conjunction with both the Movement in Reserves Statement and note 7 to the Accounts in order to derive the net cost of services borne by the local taxpayer in line with regulations and in order to gain a full understanding of the financial performance of the Council.
- 8.2. The account shows that the Authority spent a gross amount of £1.499 billion providing services to residents and visitors to Hackney. The Council earned total investment income of only £1.808 million attributable to the General Fund, Housing Revenue Account and schools balances, due mainly to the continued low interest rates available.
- 8.3. The General Fund overspend 2019/20 amounted to £9.33 million (including unspent contingencies and income from a number of one-off grants streams), in what continues to be a challenging environment, after almost a decade of central government funding reductions. This position will be challenged further

by the impact of Covid19 in 2020/21 and beyond. We implemented and delivered the savings necessary for the 2019/20 financial year at the earliest opportunity, in order to assist with the ongoing challenge presented by funding reductions and rising cost pressures in areas such as temporary accommodation, adult social care and special education needs.

9. THE BALANCE SHEET

- 9.1. The Balance Sheet sets out the overall financial position of the Council at 31 March 2019. It shows that at 31 March 2019 the Council had total net assets (worth) of £3.542 billion. It shows that the Council owns buildings, land and other property valued at £4.244 billion.
- 9.2. The Provisions item represents amounts set aside to cover known and measurable liabilities arising from past events and further details of these are shown in notes to the Balance Sheet.
- 9.3. Details of contingent assets and liabilities are set out in notes 45 and 46 to the main accounts. These represent instances where the Council may have to pay (or may receive) as a result of past events but which are dependent on some future event such as the outcome of a legal case. Contingent assets and liabilities are less likely to arise than provisions and may be impossible to quantify. Unlike actual assets and provisions, they are not provided for in the Accounts. If they become payable they have to be funded from the current or future years' budgets. They therefore represent an area of budgetary risk from 2019/20 onwards.
- 9.4. Whilst Covid19 has not been presented as a contingent liability, there is no doubt its impact on next year's accounts will be considerable and far reaching. The opening narrative report to the accounts provides further detail on this, outlining information provided initially to Cabinet.
- 9.5. Finally, set out within the Balance Sheet are details in relation to the reserves and balances that finance the net assets. Explanations of each of these are provided in the relevant notes to the accounts. The Major Repairs Reserve is detailed in the notes to the Housing Revenue Account. The General Fund Balance consists of two key elements, those being the General Fund balance and the Schools balances. Schools Balances cannot be used for any other purpose than funding schools.

10. HOUSING REVENUE ACCOUNT

- 10.1. The Housing Revenue Account (HRA) details Income and Expenditure relating to the provision and management of council dwellings. It shows that the balance on the Housing Revenue Account is £11.200 million as at 31 March 2020. In addition, the HRA has earmarked reserves of £5.961 million set aside for one-off items of expenditure largely within the housing capital programme, and all in line with the HRA Medium Term Planning Forecast and the approved HRA Business Plan.

11. THE COLLECTION FUND ACCOUNT

- 11.1. The Collection Fund Accounts flow from decisions taken in March 2019 in setting the Budget for 2019/20. Income to the Collection Fund includes Council Tax and National Non Domestic Rates (NNDR). Payments are made from the Fund to its major Preceptors (the Greater London Authority for Council tax, and the GLA and Central Government for NNDR. Distribution of previous years' surpluses or deficits are also paid from the Collection Fund to the Council and GLA in respect of Council Tax and NNDR and additionally to Government in respect of NNDR only. Provision is also made for Bad Debts for both Council Tax and NNDR.
- 11.2. The surplus on the Collection Fund relating to Council Tax carried attributable to the Council was £2.741 million. An estimated sum of £3.118 million was taken into account in arriving at the 2019/20 Council Tax, the balance to be accounted for in 2020/21 in accordance with the Collection Fund Regulations.
- 11.3. As set out above, the arrangements for accounting for NNDR changed with effect from 2013/14 with previously no balance being created within the Collection Fund. An estimated deficit of £692k was factored into budget planning, with the actual being a deficit of £687k.

12. THE PENSION FUND ACCOUNTS

- 12.1. The Pension Fund Accounts, along with the Annual Report of the Pension Fund, are to be considered by the Pensions Committee at its meeting in September 2019, although they are approved by the Audit Committee as part of the Council's main Statement of Accounts.
- 12.2. The Pension Fund Accounts show the contributions to the Council's Pension Fund for employees during 2019/20, together with the pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund as at 31 March 2020.
- 12.3. The Accounts show that net value of the assets and liabilities of the Pension Fund have decreased by £81.884 million (5.19%) to £1,493,348 million as at 31 March 2020. Of this reduction, £67.700 million was due to the impact of the reductions in the value of stock market investments held by the Fund and associated investment income. The remaining £14.184 million represents the net additional cash flow arising from contributions received into the fund less benefits and administrative costs paid.

13. ANNUAL GOVERNANCE STATEMENT

- 13.1. Hackney Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its

affairs, facilitating the effective exercise of its functions, including the management of risk.

- 13.2. During 2016/17 “Delivering Good Governance in Local Government”(CIPFA SOLACE Framework) was revised and the Council’s Local Code of Governance was reviewed and updated to reflect the revised principles of governance set out in the CIPFA/SOLACE guidance. The Local Code was considered and endorsed by the Statutory Officers’ Group, Scrutiny Panel and the Member for Finance before approval by the Audit Committee in April 2019. The Local Code is available on the Council’s website.
- 13.3. The Annual Governance Statement (AGS), included with the statement of accounts, explains how the Council has complied with the Local Code and meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Internal Control.
- 13.4. The AGS has been presented in accordance with best practice as set out in “Delivering Good Governance in Local Government”. The statement is signed by Hackney’s Mayor, Chief Executive and Group Director of Finance and Corporate Resources.
- 13.5. The statement relates to the governance arrangements in place throughout the 2019/20 financial year and reports on any identified weaknesses or areas for improvement and the action already taken or proposed in the future in order to address these.
- 13.6. In order to demonstrate that the Council has in place an effective and robust governance framework which reflects the Council’s Local Code, senior managers were required to complete a self-assessment matrix. These matrices were reviewed and assessed by Group Directors and then co-ordinated by Internal Audit who sample checked to supporting evidence and triangulated against other sources of assurance, such as inspection reports and audit reports. The results of this exercise have formed the basis of the evidence which underpins the corporate AGS
- 13.7. During 2018/19 four significant governance issues arose which were identified for inclusion within the corporate AGS. Actions to address these issues were identified and an update on the progress with each is included in the 2019/20 AGS.
- 13.8. During 2019/20 four significant governance issues arose which were identified for inclusion within the corporate AGS. Actions to address these issues have been identified and included within the AGS. These issues relate to:
 - Covid19 Pandemic
 - Cost pressures within Adult and Children’s Social Services
 - Ofsted inspection
 - Housing Contract Management
- 13.9. The Audit Committee is required to approve the Annual Governance Statement in its own right, separate from the overall approval of the Statement of Accounts.

16 COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

- 16.1 There are no direct financial consequences arising from this report as it reflects what has already occurred in the last financial year.
- 16.2 The Council has again maintained the position of having a prudent General Fund Balance of £15 million in line with our policy on reserves and balances. In addition, specific reserves have been earmarked for use in 2019/20 and future years to fund known or expected liabilities going forward. We received the first Govt grant towards Covid19 expenditure in the last few days of the 2019/20 financial year, and this has been accounted for in reserves for use in future years.
- 16.3 The financial position shown in the 2019/20 Statement of Accounts demonstrates that the Council has continued to achieve financial stability, i.e., in its Council Tax Collection and in the strength of its Balance Sheet, building on the good progress made in recent years. Provision continues to be made in the budget for a revenue contribution to support capital expenditure and for contributions to be made to earmarked reserves to meet other identified future commitments and potential budgetary risks.
- 16.4 The position provides clear evidence of the Council's ability to be able to continue to deal with the financial pressures that arise from the reduction in resources available to the Council, particularly as a result of severe cuts to Government funding.
- 16.5 The Statement of Accounts for the 2019/20 financial year was the second audited by Mazars, following the reprocurement of auditors through the PSAA (Public Sector Audit Appointments Ltd) regime. In advance of the start of the audit officers worked closely with Mazars to build upon the significant progress that has been made in recent years with regard to the efficient auditing of the accounts.
- 16.6 It is anticipated that comprehensive planning and continued co-operation between the Council's officers and the auditors will result in the main audit for both the Pension Fund and the Council's main statement being completed by the end of September, with no significant audit adjustments to the main statements and no changes to the Council's overall financial position e.g. level of balances.
- 16.7 The 2019/20 accounts have been prepared in particularly challenging circumstances, given Covid19, but we have completed both the draft and final accounts well within the revised deadlines. This reflects positively on the organisation's ability to work under and adapt to challenging conditions.
- 16.7 In addition to thanking our external auditors for the constructive way they have engaged positively with my team throughout the audit, I would also like to put on record my thanks to all those officers involved with the preparation of the Statement of Accounts and the subsequent audit for the hard work that they have undertaken and the professionalism demonstrated to ensure that we can complete the audit both on time and without qualification.

17 COMMENTS OF THE DIRECTOR OF LEGAL SERVICES

17.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for the production and approval of the Annual Statement of Accounts.

17.2 The Constitution gives the responsibility for adopting the annual Statement of Accounts of the Authority to the Audit Committee together with the duty to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

17.3 The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

APPENDICES

Appendix 1 – 2019/20 Statement of Accounts- (to follow)

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

Description of document (or None)

None

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Comments of the Group Director of Finance and Corporate Resources	Michael Honeysett	☎ 020 8356 3332
Comments of the Director of Legal and Governance Services	Dawn Carter-McDonald	☎ 020 8356 4817



Capital Budget Deep Dive

<p>AUDIT COMMITTEE MEETING DATE 2020/21</p> <p>14 September 2020</p>	<p>CLASSIFICATION:</p> <p>Open</p>
<p>WARD(S) AFFECTED</p> <p>All Wards</p>	
<p>Ian Williams, Group Director Finance and Corporate Resources</p>	

1. GROUP DIRECTOR’S INTRODUCTION

- 1.1. This report provides an update on the progress in respect of the “deep-dive” to be carried out by the Audit Committee, focusing on the development of the capital budget, its monitoring and the profiling across financial years.
- 1.2. It follows on from the agreement of the Terms of Reference for the “deep-dive” at the last Audit Committee meeting in July 2020.

2. RECOMMENDATION(S)

- 2.1 **The Audit Committee is recommended to:**

Note the update and agree the next steps as set out within this report

3. REASONS FOR DECISION

- 3.1 The Audit Committee are “those charged with governance” in respect of the Council’s annual statement of accounts and other financial matters. The Committee have carried out a number of deep dives into specific areas in order to consider specific issues in detail.
- 3.2 The Committee has expressed concern at the significant reprofiling that occurs within the capital programme each year and wish to better understand the processes and methods used by services to forecast expenditure.

4. BACKGROUND

4.1 Policy Context

The Terms of Reference for the capital programme “deep-dive” set out proposed specific work to be carried out by officers and Committee members and an outline timetable. This report provides an update on progress.

4.2 Equality Impact Assessment

This report does not require an equality impact assessment.

4.3. Sustainability

Not Applicable.

4.4 Consultations

Not applicable.

4.5 Risk Assessment

The risks associated with the delivery of the capital programme are set out in various reports to the Committee throughout the financial year.

4.6 Capital Budget Deep Dive

- 4.6.1 Unfortunately, it has not proven possible to date to arrange the workshops that were set out in the terms of reference to take place during August and September ahead of an outcomes report to October Audit Committee. This is due to a combination of reasons, but specifically due to other work that has been necessary in respect of the closure of the 2019/20 accounts and continued returns / monitoring of the impact of Covid on the Council's financial position.
- 4.6.2 It is now intended that these workshops will take place during the latter part of September into October and possibly November leading to a report to the first Audit Committee in the new year, 2021.
- 4.6.3 The Terms of Reference for the deep dive review set out the main areas that are to be reviewed and the main participants in the workshops from where relevant evidence will be gathered. This has not changed despite the delay in getting started with the deep-dive review. The terms of reference as agreed at the last Audit Committee are attached for reference at Appendix 1.
- 4.6.4 It is now intended at the first workshop to look in detail at how different services build their original budgets and the profiling within those budgets. Alongside this we will provide information relating to how overall outturn for projects in different areas of the programme actually compare to total budget, regardless of the profiling. We believe that in most areas, whilst profiling across years might be an issue, the actual costs are in line with total budgets originally requested and approved.
- 4.6.5 At a subsequent workshop, we will seek evidence from other local authorities in respect of their experience of budget build and profiling with a view to applying best practice to our own processes, where these are relevant.
- 4.6.6 Alongside this it seems appropriate to look at the governance of the capital programme and to consider how proposed changes to the governance structure will impact on the current process and the improvements that are to be achieved.

5. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

- 5.1 The contents of this report have no direct financial consequence, although it is obviously important that the profiling of the capital programme going forward is as close to actual delivery as possible in order that decisions regarding the schemes to be included can be optimised.
- 5.2 Inaccurate forecasting and profiling could result in suboptimal decisions being taken in respect of the financing of the programme, particularly regarding when and if any external borrowing is required.

6. COMMENTS OF THE DIRECTOR, LEGAL

- 6.1 The contents of this report have no significant direct legal consequences, and as advised by the Group Director Finance, the profiling of the capital programme going

forward is as close to actual delivery as possible in order that decisions regarding the schemes to be included can be optimised.

- 6.2 The terms of reference of the Audit Committee allow for, as part of its key role in the London Borough of Hackney’s corporate governance, an independent high level focus on audit, and assurance in reporting on good governance and financial standards. The capital deep dive will serve to examine the delivery of the capital programme, as detailed in the previously agreed terms of reference and report its finding accordingly, as advised by the Group Director Finance and Corporate Resources.

APPENDICES

The approved Terms of Reference for the Capital Programme Deep-dive Review

BACKGROUND PAPERS

None

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Comments of Director, Legal	Dawn Carter-McDonald 020-8356 2029 dawn.carter-mcdonald@hackney.gov.uk

Terms of Reference

Audit Committee Capital Budget Deep Dive

Introduction

Over the past 2-3 years, the Audit Committee has been receiving enhanced reports on the Council's performance management, including extracts from OFP in relation to the Capital Programme. These have shown that consistently the profiling of the capital budget by the service spending departments has often required significant adjustments throughout the financial year as schemes evolve. This has led the Committee to express concern regarding the accuracy of the forecasts that underlie the capital programme and support the Finance function in the overall management of capital resources at a time when our ambition in relation to capital expenditure is growing.

At the same time, the Committee has consistently received the usual Treasury Management reports that have indicated the increasing need and likelihood for further borrowing in order to support the delivery of the capital programme going forward, particularly in respect of the regeneration and mixed-use schemes where upfront borrowing is required ahead of the sale of built units. The proceeds from the sale of units are then to be used to repay the borrowing required.

In relation to the Treasury Management reporting arrangements the Audit Committee has consistently received very comprehensive and transparent reports and the Committee has undertaken training.

Officers have consistently stated that they are very much alive to the fact that the forecast profiling of expenditure in the capital programme could lead to suboptimal decisions in respect of related borrowing requirements, particularly regarding the timing and amount of any external borrowing required at any one time.

Purpose of Deep Dive

As set out above, there is concern that the forecasting of capital expenditure by service departments each year and the profiling of the budgets across financial years is inaccurate and that this might lead to suboptimal decisions both in respect of financing of the programme and in terms of which schemes are prioritised for resource approval each year.

The deep dive will consider:

1. How best practice is applied to the development and forecasts for the programme
2. Budget monitoring process of the programme

3. An understanding of the process at Departmental level for capital monitoring and programming.

Participants/Contributors

There will be a variety of contributors to the work underlying the deep dive, as follows:

- Director, Financial Management - corporate responsibility for management of overall programme
- Accountancy/Chief Accountant - Corporate responsibility for development and financing of programme and then subsequent monitoring
- Cllr Rebecca Rennison - Finance Lead Cabinet Member
- David Padfield/Chris Trowell/Simon Theobald - Housing Planned Maintenance / Estate Regeneration
- Andy Cunningham/Aled Richards - Highways/Public Realm
- Steve Anstee / Jackie Moylan - Education Programme
- Other LA's - relevant best practice

It is intended that service departments will be asked to provide detail of the methods they use to develop costings and profiling of resource required to deliver the programme

Timescales

July	Agree brief and ToR at July Committee meeting
August	Desktop work to provide detailed analysis for consideration at drop in sessions
September	Member drop-in sessions to consider analysis/evidence
October	Findings to October Audit Committee meeting

Background Information

The following provides a brief analysis of how the budget for the 2019/20 capital budget moved during the year from original budget setting to final outturn`

	£m
Opening approved budget February 2019	304.382
Slippage from 2018/19	7.749
1st reprofile to later years	(87.186)
2nd reprofile to later years	(42.440)
New approvals and adjustments during the year	64.054
Final approved budget end March 2020	246.559
2019/20 Final Outturn	230.466
Variance Final Budget vs Outturn	(16.093)

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