

EAST HERTS COUNCIL

JOINT SCRUTINY COMMITTEE - 18 JANUARY 2011

EXECUTIVE - 8 FEBRUARY 2011

REPORT BY THE EXECUTIVE MEMBER FOR RESOURCES AND
INTERNAL SUPPORT

CONSOLIDATED BUDGET REPORT: PROBABLE OUTTURN 2010/11:
REVENUE BUDGET 2011/12: MEDIUM TERM FINANCIAL PLAN
2011/12 TO 2014/15

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

This report recommends a revenue budget for 2011/12 in the context of

- the Council's priorities
- the medium term financial plan to 2014/15
- funding the capital programme (subject of a separate report)
- the anticipated revenue budget outturn for 2010/11
- the proposed Treasury Management Strategy for 2011/12 (subject of a separate report)
- the previously agreed council tax base for 2011/12
- no council tax increase for 2011/12
- proposals for reserves and balances

<u>RECOMMENDATION FOR DECISION BY JOINT SCRUTINY COMMITTEE: that</u>	
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(A)	Joint Scrutiny Committee advises the Executive of its comments on the proposals set out in the report including any amendments to the budget which the Committee wish to be considered by the Executive; and
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(B)	Joint Scrutiny Committee in particular considers the savings on which Council at its September 2010 meeting deferred a decision and which are: <ul style="list-style-type: none">• Support for the Chairman £11K• Museums Service £6k
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	<ul style="list-style-type: none"> • Sunday and Bank Holiday car parking £38k; and the proposal to freeze car park charges from April 2011.
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RECOMMENDATIONS FOR THE EXECUTIVE TO COUNCIL: that	
(A)	consideration be given to comments and proposals from Joint Scrutiny Committee and, in the light of that consideration, recommendations be made to the Council that :
(B)	1. The probable outturn for 2010/11 be approved; 2. The revenue budget for 2011/12 be approved; 3. The medium term financial plan to 2014/15 be approved ;and 4. There to be no increase in council tax for 2011/12

1.0 Background

- 1.1 This time last year the Council set its budget to prepare for constraint in public spending but with much uncertainty about the scale of that constraint. Following the election the incoming government signalled its intention to address the public sector deficit sooner than the outgoing government had planned with the announcement in June of spending cuts taking effect in 2010/11. The Council's expected revenue grants were reduced by £241k.
- 1.2 The Council responded to the changed position in September when it reviewed its savings proposals for 2011/12 set out in the MTFP but which remained subject to confirmation. With limited exceptions Council confirmed those savings and authorised officers to implement them at the earliest feasible opportunity.
- 1.3 The outcome of the Comprehensive Spending Review announced in October confirmed the scale and pace of the rebalancing of public spending. Spending restraint rather than increases in taxes underpinned a plan to achieve a sustainable position over four years. The plans included a 28% reduction in grants to local government over four years. The Local Government Association has calculated that job losses will total up to 140,000 nationally. The Secretary of State has said that reserves should be called on to offset the first year impact of this reduction.

- 1.4 On 13 December the government announced the Revenue Support Grant settlement. The settlement saw cuts more front loaded than the MTFP allowed for and the MTFP has been adjusted as a consequence.
- 1.5 The newly created Office of Budget Responsibility has issued two reports. A key feature of those reports which has informed the Council's budget planning is the expectation that interest rates will remain lower for longer to help off set the impact on the economy of less demand from government and from households facing real term reductions in disposable income. Between its June report and its November report the OBR further reduced its interest rate forecasts by around 0.5% and this has been factored into the MTFP.
- 1.6 The plans set out in the CSR and the OBR's forecasts are based on assumptions about the performance of the UK economy over the next four years. The UK is not immune from the international economy and the volatility of financial markets which means that the future course of the UK economy remains uncertain. Financial markets have put pressure on the Euro zone with weaker members seeing their cost of borrowing increase at a time they are imposing austerity measures to rebalance their finances. The UK has offered additional bilateral support to Ireland as a key trading partner. If doubts over sovereign debt create further turbulence in the markets this may cause the government to revisit its spending plans.
- 1.7 In July the Council refreshed the financial strategy setting out the principles and objectives for its financial planning including a policy on reserves and the MTFP is in keeping with that strategy.
- 1.8 The Council has retendered its refuse and street cleansing service and the new contract to commence April 2011 will reduce costs by £1.469m per year. The cost reduction gives scope to review spending and council tax plans.
- 1.9 The MTFP approved last year assumed a 2.5% increase in council tax from April 2011 and this was retained in the updated July Plan. The government has set out its plans to pay a grant equal to the income from a 2.5% increase in council tax to Councils agreeing to freeze their tax. As a consequence the budget proposes no increase in council tax for 2011/12.

2.0 Report

Opening balances 1 April 2010

- 2.1 The budget for 2010/11 was set in February 2010 with an expectation that 31 March 2010 would see a balance on the general reserve of £2,090k. The final accounts recorded a balance of £2,770k i.e. some £680k higher than expected largely as a result of improved waste recycling income.
- 2.2 The unallocated general fund balance was £3,854k inclusive of the £454k building control surplus. Earmarked reserves compared as follows:

Reserve	Expected Balance 31.3.10 £000	Actual Balance 31.3.10 £000
Interest Equalisation	904	1185
Insurance Fund	9	10
Emergency Planning	37	37
VAT partial exemption	145	145
Service Improvement	797	795
LDF/Green belt	363	363
Housing condition survey	23	23
Council election	50	50
LABGI	316	316
Leisure utilities/pensions	60	60
Restructure	33	33
Legal fees	31	31
Performance Reward Grant		217
Pension strain costs		158
Waste recycling		275
Total	2768	3698

Taken together the general and earmarked reserves at out turn put the Council in a significantly better position to meet the CSR challenges.

Projected outturn 2010/11

- 2.3 The latest health check report at the time of drafting this report is the November report. This shows favourable variances of £2,088k

offset by adverse variances of £2,066k – a net positive variance of £82k.

- 2.4 Action in response to budget monitoring in the year to date has seen a projected overspending reduce from £881k in June – (when the major impact of reduced investment returns was assessed) to £82k under spending in November.
- 2.5 The later detailed review of the probable outturn undertaken as part of the preparation of the 2011/12 estimates has indicated a further improvement and reports a potential under spending of £266k by the end of the year. The detail in support of the probable outturn is set out elsewhere on the agenda and this shows spending on services of £17.733m against a budget of £18.889m – an under spending of £1156k. This net under spending on services is offset by a shortfall on investment income of £890k to produce the net £266k.
- 2.6 A report to the Audit Committee on 24 November reviewed how and when variances had been reported in each of the prior two years. This showed that positive income variances in particular tended to be reported later rather than sooner. In both years there had been significant positive shifts in the net variance reported at final outturn compared with what was reported at probable outturn. This pessimism bias in reporting has been addressed with budget managers and the figures reported here include subsequent adjustment of forecasts. However, for the purposes of planning, a further judgemental “correction” is proposed to the probable outturn figure. The adjustment is a further £200k favourable shift from these figures to outturn. This is substantially less than the shift in each of the last two years reflecting a degree of prudence and the expectation of earlier reporting this year of items contributing to the turn around in each of the last two years. For the purposes of the MTFP a net favourable variance of £466k for 2010/11 is built into the plan.
- 2.7 In assessing year end balances provision is made to earmark up to £400k of this under spend dependent on final outturn for deferred pension contribution costs and transitional staffing costs including costs arising from implementing budget savings.

Priorities (and the New Homes Bonus)

- 2.8 The new government has made clear that all its policy objectives are subordinate to ensuring the sustainability of public finances. The coalition agreement states “The deficit reduction programme takes precedence over any of the other measures in this agreement...” This over riding objective requires all parts of the public sector to view their priorities in the same light.
- 2.9 The Council’s priorities against which spending proposals need to be measured have been simplified by bringing together “Pride in East Herts” and “Caring about what’s built (and) where” with the context revised to “This priority focuses on improving standards of the built neighbourhood and environmental management in our towns and villages.”
- 2.10 This priority is particularly relevant when the Council comes to consider how it will respond to the New Homes Bonus. With the proposed redirection of funding to areas building relatively high numbers of houses and away from those building relatively few houses the scheme will benefit those authorities which respond to the incentive and penalise those which do not by top slicing what would otherwise be available for formula grant.
- 2.11 As yet, the MTFP makes no provision either for income from this source or how that income might be applied. In simple terms for each band D equivalent house added to the council tax base the reward would be 6 years of the council tax generated using a national band D equivalent (about £1440 for 2011/12). A premium is payable for affordable housing at the rate of £350 per unit. In two tier areas the reward is split 80% district 20% county.
- 2.12 The scheme is ranked as “high risk” in the consideration of the robustness of estimates set out below. As yet there is no reasonable basis to predict the potential top slicing of RSG and how any top slicing would impact allocations to individual authorities but it is probable some authorities will lose more in RSG than they gain in New Homes Bonus. Essential Reference Paper B calculates an estimate of potential gross income of £557k in 2011/12 based on the consultation paper. The Council’s share at 80% equates to £446k.
- 2.13 With spending restraint likely to be with all Councils for some time the budget round has necessarily focussed again on where savings

can be made that have least impact on priorities. The overall priority has continued to be the prudent management of the Council's finances to avoid unplanned service reductions.

Financial Strategy

- 2.14 Corporate Business Scrutiny Committee on 20 July considered a draft updated financial strategy 2011/12 to 2014/15 which was subsequently endorsed by the Executive. The strategy emphasises the need to specifically address uncertainty in the planning process. A policy with respect to reserves was approved.
- 2.15 To address uncertainty the planning process has developed savings options somewhat ahead of the sums needed to balance the MTFP based on central planning assumptions; planning contingencies have been built in for later years and the flexible use of reserves is proposed to address volatile and not readily controllable budgets. If necessary a September mid year review of future options will be repeated. The investment strategy has been amended to ensure a floor return for a proportion of investments.
- 2.16 The policy with regard to reserves establishes a band within which the general reserve is to be maintained. The proposals in this report ensure the general reserve will remain within these boundaries.

Revenue Support Grant Settlement

- 2.17 The settlement was delayed until the 13 December some two weeks later than is normal and which perhaps reflects the difficulty that DCLG has had in devising a formula which avoids volatility with a switch of many specific grants each with their own basis of allocation into the general purposes formula grant.
- 2.18 Key features of the settlement are set out in the Local Government Association's commentary at Essential Reference Paper C. This was an unusually complex settlement with multiple floors set to cap grant reductions at higher levels for authorities whose income was more dependent on council tax.
- 2.19 The implications for the Council are set out in summary at Essential Reference Paper D. The announcement focussed on changes to "revenue spending power" which effectively is the reduction in budget needed to achieve a council tax freeze while accommodating a reduction in grant. The inclusion of parish

precept income as if spending power of the billing authority tended to understate the impact on billing authorities such as East Herts with significant parish precepts. On the governments measure this was a reduction of 4.8% corrected to exclude parishes the reduction is 5.8%. These budget reductions are a consequence of a reduction of grant of £1.2m equal to 16.6% in 2011/12.

2.20 The Council saw a loss of £490k of grant to contribute towards the floors on grant reductions elsewhere.

2.21 Revenue Support Grant income from the settlement compares to the projections in the July refresh as follows (adjusting for concessionary fares):

Year	Settlement £000	July MTFP £000**	Change £000
2011/12	6046	6916	-870
2012/13	5315	6487	-1172
2013/14	Not announced	6055	n/a
2014/15	Not announced	5622	n/a

** These figures are after reduction for concessionary fares

2.22 The reduction in formula grant in cash terms is 26.7% over the two years announced and the reductions in total grants is 22.7% (see ERP D). In real terms allowing for inflation at 2.5% per year the loss of grant is therefore already in excess of the average of 28% reduction over 4 years announced at the time of the Comprehensive Spending Review. Given that the Council is a contributor to the floors on grant reductions we must now expect the grant loss over 4 years to be above average.

2.23 Revised projections are included for grant in years 3 and 4 based on the figure for year 2. A 3% reduction is made in each year to £5160k in 2013/14 and £5100k in 2014/15. Over the 4 years this equates to a 25% reduction in cash terms or 35% reduction in real terms.

Budget 2011/12 and MTFP

2.24 Since the MTFP was presented to Scrutiny in August the major adjustments to offset the revised grant figures which do not involve any changes of policy (other than treasury management policy) are as follows:

- Refuse and Street cleansing service reflect annual savings of £1.469m on a like for like basis.
- The exclusion of concessionary fares costs £0.857m (transferred to the County) and consequential reduction in grant
- Revision to investment income projections to reflect the OBR's reduced forecast for rates offset by the impact of the enhanced returns from structured deposits.
- Increases in pension fund contributions are less than previously modelled reflecting the better than expected funding position at the March 2010 valuation. The improvement flows from the change from rpi to cpi in indexing pensions and the public sector pay freeze. Pension increases are deferred to 2014 based on the latest information from the actuary.
- Recycling income is now built in for the final two years of the MTFP
- Planning contingencies have been reduced as a consequence of moving to a 2011/12 base year and the refuse contract saving
- Provision is included to meet costs of change as the Council restructures of up to £600k over 2 years rather than meet these costs as unbudgeted calls on reserves. In finalising the estimates a proportion of this sum will be built into detailed estimates to meet known costs.
- Detailed calculation of payroll costs indicates that the cost of increments and local awards is £120k less than allowed for
- Further savings identified from the review of the 2009/10 outturn are now included.
- Council tax is now set not to increase from 1 April 2011 with the offsetting grant recorded as income.
- With the continuation of the homelessness grant for at least two more years the saving from the discontinuation of the rent deposit scheme has been deleted from the savings options. The MTFP assumes grant for all four years to fund this scheme

Essential reference Paper E shows how the funding gap identified in the August report has changed because of each of these adjustments.

2.25 There are further changes which reflect policy changes. These are as follows:

- The decision to include recycling of plastics in the refuse contract at a cost of £260k per year
- Not to implement savings deferred by the Council at its September meeting as follows:
 - Support for the Chairman £11K
 - Museums Service £6k
 - Sunday and Bank Holiday car parking £38k
- To freeze car parking charges for one year from 1 April 2011 and to absorb the VAT increase in these charges from 1 January 2011. In 2010/11 there is a forecast shortfall of car parking income of £160k (other than for deferral of proposals). The budget assumes continuation of that shortfall plus a further reduction below the MTFP update of a similar amount of £150k from the policy changes set out here.
- If possible, to avoid any need to introduce on street car parking at least during the period of this MTFP.
- The MTFP includes the revenue savings which would be made by purchase rather than rental of car park land at Apton Road and Baldock Street. This remains subject to approval of the capital programme.

2.26 The revised financial model for the MTFP is set out at Essential Reference Paper F.

2.27 The budget 2011/12 can be summarised as follows:

	£000	£000
Neighbourhood Services	3369	
Customer & Community Services	6379	
Internal Services	5911	
Chief Executive	670	
- capitalised salaries	-186	16,143

Investment income net of interest payable	-513
Pension costs not chargeable services (note 1)	1,424
Efficiency savings net of growth	-927
Net Expenditure	16,127
Pensions Reserve (note1)	-888
Cost of change provision	400
Contributions to/from reserves	-145
Collection Fund (Surplus)/deficit	31
Formula Grant	-6046
Grant to freeze council tax	-230
Demand on Collection Fund	9249
Band D tax base	58,123
Band D tax	£159.13

Note 1 The service estimate figures exclude capital charges (see separate report) which will be added prior to publication of detailed estimates. Costs to be added relate to pension strain costs and pension contributions to fund the deficit which is not included in current costs.

- 2.28 The MTFP savings identified at Essential Reference Paper F exceed the sum now required to balance the budget which results in a small £4k positive “balancing figure” on the MTFP summary page for 2011/12 but increasing in later years. Subject to any further changes this sum will be taken as an additional contingency provision in later years. The savings options were available for review, questioning and comment by members in preparation for Scrutiny on a member web site.
- 2.29 Comments from the Member web site are included as part of the consultation out come at Essential Reference Paper G. The consultation exercises recorded a variety of opinions but with acceptance by most respondents of some level of cut to most of the services consulted on. The Business Community (represented by the Federation of Small Businesses) preferred no cuts to Police Community Service Officers or to support for towns and encouraging business.
- 2.30 The “balancing figure” noted above can be alternatively applied to a combination of:

- not take up all savings options
- allowing further growth items
- transfer to reserves
- changing council tax assumptions

Application of this sum will be considered in the light of any recommendations from Scrutiny.

Council Tax

- 2.31 The government has confirmed grant income to offset the loss of council tax income from not increasing council tax by 2.5% from 1 April 2011 will continue for at least the duration of the MTFP. Years beyond 2011 are based on a council tax increase of 2.5% each year.
- 2.32 A final determination of any surplus or deficit on the Collection Fund will be made in mid January. It is assumed there will be a nil contribution in the current year and the residual balance on the Fund at 31 March 2010 that was not taken into account when this year's budget was set will be applied in 2011/12. The implication for the Council is the further net contribution of £31k to the remaining deficit shown in the MTFP.

Reserves

- 2.33 The proposals in this budget include no fresh proposals to call on reserves.
- 2.34 Movement on the General Reserve in 2010/11 is based on the judgementally adjusted probable outturn rather than the approved supplementary estimates. In summary this is as follows:

	£000
Balance 1 April 2010	2770
Add	
Planned contribution 2010/11 budget	159
Contribution from under spending – probable outturn	625
Judgemental further under spending	200
Year end Appropriations	-400
Balance 31 March 2011	3354

2.35 In setting the budget for 2010/11 and MTFP it was previously planned to draw on earmarked reserves and these intentions are retained. In addition there is a further call on the Interest Equalisation reserve to meet part of the current years reduced investment income.

2.36 The consequent (additions to) and withdrawal from reserves will result in year end balances as set out in the table below.

Reserve	Bal at 31/3/10 £000	Bal at 31/3/11 £000	Bal at 31/3/12 £000	Bal at 31/3/13 £000	Bal at 31/3/14 £000	Bal at 31/3/15 £000
Interest Equalisation	1185	0	17	44	159	72
Insurance Fund	10	10	10	10	10	10
Emergency Planning	36	36	36	36	36	36
VAT partial exemption	146	146	146	146	146	146
Service Improvement	795	692	645	645	645	645
LDF /Green belt	363	514	604	754	904	1054
Housing condition survey	23	37	51	65	79	93
Council Elections	50	75	0	25	50	75
LABGI	316	86	0	0	0	0
Leisure utilities/pensions	60	120	180	240	300	360
Restructure	33	33	33	33	33	33
Legal fees	31	21	21	21	21	21
Performance Reward Grant	217	0	0	0	0	0
Pension Strain costs	158	79	0	0	0	0
Waste recycling	275	275	275	275	275	275
Earmarking general reserve March 2011		400	400	400	400	400
Total	3698	2524	2418	2694	3058	3220

Robustness of estimates and adequacy of reserves

- 2.37 Section 25 of The Local Government Finance Act 2003 requires the Section 151 Officer to report on the adequacy of reserves and robustness of the estimates. The balance of this section represents the judgement of the Section 151 Officer.
- 2.38 The proposals in this report retain adequate but not excessive levels of reserve. This judgement has regard to the Council's policy with regard to reserves, its record of containing spending within budget, it having identified saving options in excess of the sum needed to balance the MTFP and its prudent approach to risk management. Consideration has been given to potential calls on reserves to meet external "shocks" – from environmental, economic, and operational uninsured losses having regard to the Council's activities and scale of operations.
- 2.39 The Council has recently adopted a less risk adverse approach to its treasury activities in order to improve its investment performance and the Council retains very substantial investments in relation to its annual spend. It is prudent to retain above minimum levels of reserves in these circumstances.
- 2.40 The relative risks to budget assumptions are set out below together with a judgement of relative risk of actual experience differing from current assumptions. The potential direction of variance needs to be considered e.g. the risk to pay and inflation assumptions is on balance that current planning assumption may prove optimistic that a 3rd year of pay freeze can be delivered outturn where as council tax variance is on balance at net cost to the budget.

Area of Risk	Factor	Comment and Mitigation
Volatility of grant income	Medium/High (revised from High)	Although trend formula grant is certain for years 1 and 2 other grant income is subject to annual revisions. The outcome of the Local Government Resource Review is not likely to impact the period covered by the MTFP but years 3

		and 4 are not yet announced.
Localisation of council tax benefit and a 10% saving to be achieved.	High	Announced to take effect from 2013/14 but with no supporting detail announced.
New Homes Bonus	Medium/high	Income and expenditure are omitted from the MTFP pending clarification of this funding stream which is subject to consultation. The potential loss of formula grant by top slicing is a significant risk.
Discretionary Rate Relief	Low	No provision is made in the MTFP to respond to proposed freedoms to extend discretionary NNDR relief.
Income achievement	Medium	Allowance has been made for continuing impact of the recession. It is uncertain that economic recovery will be achieved at the pace expected in the pre budget report
Achieving savings	Medium/High (revised from medium)	Targets become increasingly challenging over the MTFP and public acceptability of some proposals may be difficult to achieve.
Interest rates	High	There are divergent views on the direction of short term rates reflecting different

		assumptions about the impact of markets concerns about sovereign debt and how the UK economy will respond to public sector spending cuts and increased taxes. The MTFP anticipates investment returns consistent with OBR forecasts.
Compliance with grant requirements	Low	Recent audits record a good performance
Vacancy saving	Low	The provision has been reduced to reflect current lower levels of turnover
Pay and inflation	Medium (revised from Low to medium)	A third year of pay restraint will be challenging for national employers if pay in the private sector accelerates as the economy recovers)
Pension costs	Low (revised from medium)	Pension contributions reflect the provisional outcome of the 2010 revaluation and so rates for the next 3 years are unlikely to be further revised. Changes to the scheme including increased employee contributions and potential capping of benefits may improve the funding position at the 2013 valuation.
Council tax increases	Medium (revised from High)	The acceptability of tax increases of 2.5% in years beyond

		<p>2011/12 at a time of declining rates of increase in the RPI is more likely to be accepted after a year of freeze.</p> <p>Savings options are available to deliver lower increases and a planning contingency can also be drawn on.</p>
Changing Council priorities	Low	<p>The Council has refined its key priorities and fine tuning rather than significant revision is likely. The outcome of the May 2011 election may cause priorities to be revisited</p>
C3W programme	Medium	<p>The scale of change is significant, and the roll out Business Process Improvement will be challenging of an organisation of the scale of the Council. The Council has in place sound programme and risk management processes with commitment from members and senior manages</p>

2.41 The estimates are considered sufficiently robust for the Council to set a budget and council tax for 2011/12.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Comprehensive Spending Review
OBR reports June and November 2010
RSG announcement 13 December 2010.

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ESSENTIAL REFERENCE PAPER 'A'

Contribution to the Council's Corporate Priorities/ Objectives	<p>The budget and MTFP apply resources to achieve all the Council's priorities</p> <p>Promoting prosperity and well-being; providing access and opportunities <i>Enhance the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.</i></p> <p>Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i></p> <p>Pride in East Herts <i>Improve standards of the neighbourhood and environmental management in our towns and villages.</i></p> <p>Caring about what's built and where <i>Care for and improve our natural and built environment.</i></p> <p>Shaping now, shaping the future <i>Safeguard and enhance our unique mix of rural and urban communities, ensuring sustainable, economic and social opportunities including the continuation of effective development control and other measures.</i></p> <p>Leading the way, working together <i>Deliver responsible community leadership that engages with our partners and the public.</i></p>
Consultation:	
Legal:	<p>The Council must set a lawful and balanced budget and subsequently set a council tax for 2010/11 within prescribed time frames.</p> <p>Members should have regard to the advice of the Section 151 but may take decisions at variance with this advice where there are reasonable grounds to do so.</p> <p>It is an offence for any Member with arrears of council tax outstanding for two months or more to attend any meeting of the Council or its committees at which a decision affecting the budget is made unless the Member</p>

	concerned declares at the outset of the meeting that s/he is in arrears and will not be voting on the decision for that reason.
Financial:	As set out in the report.
Human Resource:	Where savings options may cause redundancy the relevant HR policies will apply and those savings remain subject to the outcome of the application of those policies.
Risk Management:	Contingencies are included and the level of reserves forms part of the corporate approach to mitigation of risk.