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NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Tuesday, 22nd May, 2018 at 2.00 pm
Place	Wellington Room, EII South, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

John Coughlan CBE
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION

This meeting may be recorded and broadcast live on the County Council's website. The meeting may also be recorded and broadcast by the press and members of the public – please see the Filming Protocol available on the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to the circumstances described in Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Non-Pecuniary interest in a matter being considered at the meeting should consider whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. MINUTES OF PREVIOUS MEETING (Pages 5 - 8)

To confirm the minutes of the previous meeting held on 8 February 2018.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

6. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS (Pages 9 - 14)

To receive a presentation from the Director of Transformation and Governance on the County Council's use of surveillance.

7. ANNUAL TREASURY OUTTURN REPORT 2017/18 (Pages 15 - 28)

To consider a report of the Director of Corporate Resources – Corporate Services giving details on treasury activity during 2017/18.

8. RELATED PARTY DISCLOSURE 2017/18 - UPDATE (Pages 29 - 32)

To consider a report of the Director of Corporate Resources – Corporate Services with an update on related party disclosure.

9. HAMPSHIRE PENSION FUND AND HAMPSHIRE COUNTY COUNCIL FEE LETTERS 2018/19 (Pages 33 - 44)

To consider a report of the Director of Transformation and Governance presenting the fee letters for the annual audit for 2018/19.

10. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 15 DECEMBER 2017 (LESS EXEMPT) (Pages 45 - 52)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 15 December 2017.

11. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the public be excluded from the meeting during the following item of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during this item there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the cases, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the exempt minutes.

12. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 15 DECEMBER 2017 (EXEMPT) (Pages 53 - 60)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 15 December 2017.

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact members.services@hants.gov.uk for assistance.

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

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Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at The Castle, Winchester on Thursday, 8th February, 2018

Chairman:

p. Councillor Keith Evans

p. Councillor Alexis McEvoy
a. Councillor Adrian Collett
p. Councillor Dominic Hiscock
p. Councillor Mark Kemp-Gee
p. Councillor Derek Mellor

a. Councillor Floss Mitchell
a. Councillor Rob Mocatta
p. Councillor Tom Thacker
p. Councillor Lance Quantrill

45. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Adrian Collett, Floss Mitchell and Rob Mocatta. Councillor Lance Quantrill was in attendance as the Conservative substitute.

46. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

47. **MINUTES OF PREVIOUS MEETING**

The minutes of the meeting held on 14 December 2017 were agreed as a correct record and signed by the Chairman.

48. **DEPUTATIONS**

There were no deputations.

49. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

50. **INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS**

The Committee received and noted the presentation of the Director of Transformation and Governance (Item 6 in the Minute Book) which showed that the County Council had not used its surveillance powers during the third quarter of 2017/18.

51. **TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY 2018/19 TO 2020/21**

The Committee considered the report of the Director of Corporate Resources – Corporate Services (Item 7 in the Minute Book) detailing the County Council's Treasury Management Strategy and Investment Strategy for 2018/19 to 2020/21.

RESOLVED:

That the following recommendations being made to Cabinet be noted:

- i) That Cabinet approve the Treasury Management Strategy and Annual Investment Strategy for 2018/19 (and the remainder of 2017/18) including:
- Prudential Indicators for 2018/19, 2019/20 and 2020/21 – Appendix C
 - Minimum Revenue Provision (MRP) Statement – Appendix D
 - That authority is delegated to the Director of Corporate Resources to manage the Council's investments according to the risk assessment process in the Investment Strategy as appropriate.
 - To approve investments of up to £35m for up to 20 years in the Manydown joint venture in which the County Council has a significant interest.
 - To delegate authority to the Director of Corporate Resources to approve investments in the Manydown joint venture in consultation with the Executive Member for Policy and Resources.

52. **ANNUAL AUDIT PLANS FOR HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND FOR 2017/18**

The Committee received the Annual Audit Plans for Hampshire County Council and the Hampshire Pension Fund for 2017/18 (Item 8 in the Minute Book).

The Auditor highlighted the main points of the Plans and in particular advised that following a change in internal guidance it was now possible to set pension fund planning materiality at 2% of net assets, subject to internal consultation and approval, previously the limit was 1% of net assets.

The Auditor outlined to the Committee that they considered it appropriate to set performance materiality at 2% for Hampshire Pension Fund, and had received internal approval for this in early February, which was after the plan had been drafted. Members heard that therefore the planning materiality, performance materiality and audit differences shown on pages 83 and 87 would be double the

amount included in the plan and that the Committee would be updated on the actual levels used in the audit results reports at its meeting in July.

RESOLVED:

That the Committee notes the annual audit plans from the external auditors for both Hampshire County Council and the Hampshire Pension Fund for 2017/18.

53. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 3 NOVEMBER 2017 (LESS EXEMPT)**

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 3 November 2017 (Item 9 in the Minute Book).

54. **EXCLUSION OF THE PRESS AND PUBLIC**

The press and public were excluded from the meeting during the following items of business, as it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would have been disclosure to them of exempt information within Paragraphs 3 and 5 of Part I Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, for the reasons set out in the minutes.

55. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 3 NOVEMBER 2017 (EXEMPT)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 3 November 2017 (Item 11 in the Minute Book).

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	22 May 2018
Title:	Information Compliance - Use of Regulated Investigatory Powers
Report From:	Director of Transformation and Governance – Corporate Services

Contact name: Peter Andrews

Tel: 01962 847309

Email: peter.andrews@hants.gov.uk

1. Recommendation

- 1.1 That the Audit Committee receives and notes the data regarding the County Council's use of surveillance powers during the fourth quarter of 2017/18 as attached at Appendix 1.

CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

A high level Equalities Impact Assessment has been undertaken. The grants are intended to have a positive impact and advance equality.

2. Impact on Crime and Disorder:

2.1 Not applicable.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable.

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Quarterly Reporting of Surveillance

Number of Authorisations by Quarter (1 April 2017 – 31 March 2018)

Direct Surveillance			
	Purpose of Surveillance		
2017-18 Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4	1	0	0
Total -	1	0	0

Covert Human Intelligence Source (CHIS)			
	Purpose of Surveillance		
Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4	1	0	0
Total -	1	0	0

Communications Data			
Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	0	0	N/A
2	0	0	N/A
3	0	0	N/A
4	0	0	N/A
Total -	0	0	N/A

The decision to deploy any of the surveillance techniques defined within RIPA is dependent upon many considerations. Where there are other investigative tools available, which are both overt in nature and more appropriate to be used, they will be deployed instead of reverting to any of the surveillance techniques referenced within RIPA.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	22 May 2018
Title:	Annual Treasury Outturn Report 2017/18
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Gemma Farley

Tel: 01962 847540

Email: gemma.farley@hants.gov.uk

1. Recommendation

The Audit Committee are asked to note the following recommendations being reported to Cabinet and Full Council:

- 1.1. The approval of the addition of a further £0.5m to the Investment Risk Reserve created in the County Council's accounts in 2017/18 as protections against the irrecoverable fall in value of any investments.
- 1.2. That the outturn review of treasury management activities be noted.

2. Purpose

- 2.1. The County Council adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice in February 2010. These recommendations include approving an annual report on treasury management activity after the end of each financial year.

3. Summary

- 3.1. This report fulfils the County Council's legal obligation to have regard to the CIPFA Code.
- 3.2. The County Council's treasury management strategy for 2017/18 was approved at a meeting of full Council in February 2017. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's treasury management strategy.
- 3.3. Treasury management in the context of this report is defined as:

“The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

- 3.4. This annual report sets out the performance of the treasury management function during 2017/18, to include the effects of the decisions taken and the transactions executed in the past year.
- 3.5. Overall responsibility for treasury management remains with the County Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the County Council’s treasury management objectives.
- 3.6. All treasury activity has complied with the County Council’s Treasury Management Strategy and Investment Strategy for 2017/18, and all relevant statute, guidance and accounting standards. In addition the County Council’s treasury advisers, Arlingclose, provide support in undertaking treasury management activities. The County Council has also complied with all of the prudential indicators set in its Treasury Management Strategy.

4. External Context

- 4.1. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions were made in 2017/18.

Economic commentary

- 4.2. The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.
- 4.3. The inflationary impact of rising import prices, a consequence of the fall in Sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June 2017 and by the lack of clarity on Brexit. The Withdrawal Treaty is yet to be ratified by the UK Parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.
- 4.4. The Bank of England’s Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% in November 2017. This action was significant as this was the first rate increase in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The

February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely, however at the meeting in May 2018 the MPC again voted by a majority of 7-2 to maintain Bank Rate at 0.5%.

Credit background

- 4.5. The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the County Council would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.
- 4.6. Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.
- 4.7. In March 2018, following Arlingclose's advice, the County Council removed RBS plc and National Westminster Bank from its counterparty list for unsecured investments. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for 2018/19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the County Council's unsecured lending list.

Local Authority Regulatory Changes

- 4.8. CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions. The County Council will be preparing the Capital Strategy in line with the 2019/20 budget setting process.

- 4.9. In the 2017 Treasury Management Code the definition of ‘investments’ has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

MiFID II

- 4.10. As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria were met which include having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority having at least one year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that the person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.
- 4.11. The County Council has met the conditions to opt up to professional status and has done so in order to maintain its previous MiFID status prior to January 2018. The County Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Local Context

- 4.12. At 31 March 2018 the County Council’s underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £764m, while usable reserves and working capital which are the underlying resources available for investment were £571m (principal invested plus gains on investments with a variable net asset value). These factors and the year-on year change are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/17 Balance £m	Movement £m	31/03/18 Balance £m
CFR	(755.4)	(8.6)	(764.0)
Less: Other debt liabilities*	171.0	(6.8)	164.2
Borrowing CFR	(584.4)	(15.4)	(599.8)
Less: Resources for investment	522.2	48.5	570.7
Net borrowing	(62.2)	33.1	(29.1)

* finance leases and PFI liabilities that form part of the County Council’s debt.

- 4.13. Although CFR has risen as new capital expenditure was higher in comparison to the amount of debt paid in 2017/18, net borrowing has decreased overall due to an increase in usable reserves, partly due to capital grants unapplied received in advance of spend, as well as an increase in the Grant Equalisation Reserve to enable the County Council to continue its financial strategy, and to allow delivery of the more complex savings to be achieved within the Transformation to 2019 Programme over the two years.
- 4.14. The County Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2018 and the year-on-year change is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/03/17 Balance £m	Movement £m	31/03/18 Balance £m	31/03/18 Rate %
Long-term borrowing	(319.7)	39.7	(280.0)	(4.59)
Short-term borrowing	(13.6)	5.7	(7.9)	(3.28)
Total borrowing	(333.3)	45.5	(287.8)	(4.55)
Long-term investments	277.5	11.8	289.3	2.72
Short-term investments	160.1	80.4	240.5	1.30
Cash and cash equivalents	75.5	(43.1)	32.4	0.45
Total investments	513.1	49.1	562.2	1.98
Net investments	179.8	94.6	274.4	

Note: the figures in the table above are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 4.15. The County Council's internal borrowing policy is the reason for the large variance between the positions shown in Tables 1 and 2. The movement that has taken place during 2017/18 in net borrowing shown in Table 1 has translated into a rise in investment balances as shown in Table 2. In addition, total borrowing in Table 2 has reduced during 2017/18 due to the early repayment of £32m of long-term borrowing in the form of LOBO (lender's option, borrower's option) loans and repayment upon maturity of £13.6m of Public Works Loan Board (PWLB) debt.

5. Borrowing Activity

- 5.1. At 31 March 2018 the County Council held £288m of loans, a decrease of £45m on the previous year, as part of its strategy for funding previous

years' capital programmes. The year-end treasury management borrowing position and year-on-year change is shown in Table 3 below.

Table 3: Borrowing Position

	31/03/17 Balance £m	Movement £m	31/03/18 Balance £m	31/03/18 Rate %	31/03/18 WAM* years
Public Works Loan Board	257.0	(13.6)	243.4	4.66	11.03
Banks (LOBO)	60.0	(40.0)	20.0	4.76	15.29
Banks (fixed term)	13.0	8.0	21.0	4.21	21.91
Total borrowing	330.0	45.6	284.4	4.63	12.13

* Weighted average maturity

Note: the figures in the table above are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude borrowing taken out on behalf of others, and accrued interest.

- 5.2. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective.
- 5.3. Affordability and the "cost of carry" remained important influences on the County Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained and are likely to remain at least over the forthcoming two years, lower than long-term rates, the County Council determined it was more cost effective in the short-term to use internal resources instead of taking out new borrowing. This strategy enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 5.4. The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the County Council with the monitoring of internal and external borrowing.
- 5.5. During 2017/18 the County Council repaid £13.6m of maturing PWLB debt, and did not replace this borrowing. This will reduce the future cost of interest payments on the County Council's external debt.
- 5.6. The County Council continues to hold £41m of market loans (£20m of which are LOBO loans, and £21m of which were LOBO but have now been converted to fixed term loans by the lender); this has reduced from the £73m historical balance due to the County Council having negotiated the early repayment of £32m of LOBO loans, and repaid these at a saving in comparison to the total cost expected over the loans' lifetime. LOBO loans

are where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year.

6. Investment Activity

- 6.1. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. During 2017/18 the Council's investment balances have ranged between £513m and £659m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4 below.

Table 4: Investment Activity in 2017/18

Investments	31/03/2017 Balance £m	Movement £m	31/03/2018 Balance £m	Rate on 31/03/2018 %	WAM* on 31/03/2018 years
Short term Investments					
- Banks and Building Societies:					
- Unsecured	35.7	(24.0)	11.7	0.53	0.11
- Secured	20.0	35.0	55.0	1.00	0.56
- Money Market Funds	61.7	(36.0)	25.7	0.46	0.00
- Local Authorities	116.8	43.7	160.5	1.33	0.35
- Corporate Bonds	1.3	(1.3)	-	-	-
- Registered Provider	-	20.0	20.0	2.03	0.33
	235.6	37.3	272.9	1.20	0.35
Long term Investments					
- Banks and Building Societies:					
- Secured	70.0	8.3	78.3	0.79	2.57
- Local Authorities	97.5	(36.5)	61.0	1.41	1.94
	167.5	(28.2)	139.3	1.06	2.29
Long term Investments – high yielding strategy					
- Local Authorities					
- Fixed deposits	20.0	-	20.0	3.96	15.97
- Fixed bonds	10.0	-	10.0	3.78	15.77
- Pooled Funds					
- Pooled property**	45.0	10.0	55.0	4.60	n/a
- Pooled equity**	20.0	20.0	40.0	4.28	n/a
- Pooled multi-asset**	10.0	10.0	20.0	3.99	n/a
- Registered Provider	5.0	-	5.0	3.40	1.08
	110.0	40.0	150.0	4.25	13.79
TOTAL INVESTMENTS	513.1	49.1	562.2	1.98	2.00

* Weighted average maturity

** The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 31 March 2018.

Note: the figures in the table above are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 6.2. Both the CIPFA Code and the government guidance require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.3. In furtherance of these objectives, and given the increasing risk and low returns from short-term unsecured bank investments, the County Council further diversified into more secure and higher yielding asset classes during 2017/18. For example, the proportion of investments to liquid funds (i.e. invested in money market funds and unsecured call accounts) was reduced and instead invested in secure short-term investments with higher rates of return (such as local authorities). Also £40m was added to externally-managed funds during 2017/18 as part of the investments targeting higher yields.
- 6.4. Security of capital has remained the County Council's main investment objective. This has been maintained by following the County Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18.
- 6.5. Counterparty credit quality was assessed and monitored with reference to credit ratings, for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 6.6. The County Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 6.7. The County Council maintained a sufficient level of liquidity through the use of call accounts and money market funds. The County Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate increased by 0.25% to 0.50% in November 2017 and short-term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income.
- 6.8. The progression of credit risk and return metrics for the County Council's investments managed in-house (excluding external pooled funds) are shown in the extracts from Arlingclose's investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking (investments managed in-house)

	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return
31.03.2017	AA	22%	709	1.21%
31.03.2018	AA	8%	735	1.36%
Similar LAs	AA-	48%	879	0.94%
All LAs	AA-	55%	35	0.63%

* Weighted average maturity

- 6.9. As part of the 2017/18 Investment Strategy the total amount targeted towards high yielding investments was increased to £200m. Investments yielding higher returns will contribute additional income to the County Council, although some come with the risk that they may suffer falls in the value of the principal invested.
- 6.10. Of the £200m available £150m has been invested (an increase of £40m since 31 March 2017), and an additional £10m has been committed but not called.
- 6.11. The £115m portfolio of externally managed pooled multi-asset, equity and property funds generated an average total return of 4.9%, comprising 4.88% income return used to support services in year, and 0.02% of capital growth. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the County Council's investment objectives are regularly reviewed.
- 6.12. The investments in pooled funds allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the County Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.
- 6.13. Although money can be redeemed from the pooled funds at short notice, the County Council's intention is to hold them for at least the medium-term. Their performance and suitability in meeting the County Council's investment objectives are monitored regularly and discussed with Arlingclose.
- 6.14. The 2015/16 Investment Strategy recommended that the returns from a pooled property fund be used to contribute £0.5m each year to a reserve in the County Council's accounts as protection against the irrecoverable fall in value of any investments. It is now recommended that £0.5m is added to this reserve in line with this strategy to further protect the County Council's funds. This is prudent given the additional risk that is being taken in targeting investments with higher returns and will bring the total amount in the reserve to £2.0m.

7. Financial Implications

- 7.1. The outturn for debt interest paid in 2017/18 was £14.9m on an average debt portfolio of £311m, against a budgeted £14.8m on an average debt portfolio of £311m.
- 7.2. The outturn for investment income received in 2017/18 was £11.2m on an average investment portfolio of £602m, therefore giving a yield of 1.86%, against a budgeted £9.0m on an average investment portfolio of £600m at an average interest rate of 1.5%. In comparison in 2016/17 investment income received was £9.4m on an average investment portfolio of £565m, therefore giving a yield of 1.66%.

8. Other Non-Treasury Holdings and Activity

- 8.1. Although not classed as treasury management activities the Council may also make loans and investments for service purposes, for example loans to Hampshire based businesses or the direct purchase of land or property. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. The County Council's existing non-treasury investments are listed in Table 6 below.

Table 6: Non-Treasury Investments

	31/03/18 Asset value £m	31/03/18 Rate %
Loans to Hampshire based business	5.75	4.00
Total	5.75	4.00

9. Compliance Report

- 9.1. The County Council confirms compliance of all treasury management activities undertaken during 2017/18 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy. Compliance with specific investment limits, as well as the authorised limit and operational boundary for external debt, is demonstrated in Tables 7 and 8 below.

Table 7: Debt Limits

	2017/18 Maximum £m	31/03/18 Actual £m	2017/18 Operational Boundary £m	2017/18 Authorised Limit £m	Complied
Borrowing	333	284	680	740	✓
Other long term liabilities	171	164	170	210	✓
Total debt	504	448	850	950	✓

Table 8: Investment Limits

	2017/18 Maximum	31/03/18 Actual	2017/18 Limit	Complied
Any single organisation, except the UK Central Government	£40m	£23m	£70m	✓
Any group of organisations under the same ownership	£40m	£23m	£70m	✓
Any group of pooled funds under the same management	£30m	£30m	£70m	✓
Registered Providers	£25m	£25m	£70m	✓
Money market funds	19%	5%	50%	✓

10. Treasury Management Indicators

10.1. The County Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

10.2. This indicator is set to control the County Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

Table 9 – Interest Rate Exposures

	31/03/18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate investment exposure	£90m	£375m	✓
Upper limit on variable interest rate investment exposure	£473m	£700m	✓
Upper limit on fixed interest rate borrowing exposure	£277m	£960m	✓
Upper limit on variable interest rate borrowing exposure	£8m	£960m	✓

10.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

10.4. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 10 – Maturity Structure of Borrowing

	31/03/18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	50%	0%	✓
12 months and within 24 months	3%	50%	0%	✓
24 months and within 5 years	10%	50%	0%	✓
5 years and within 10 years	17%	75%	0%	✓
10 years and within 20 years	56%	75%	0%	✓
20 years and within 30 years	11%	75%	0%	✓
30 years and above	0%	100%	0%	✓

Principal Sums Invested for Periods Longer than 364 days

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

Table 11 – Principal Sums Invested for Periods Longer than 364 days

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£280m	£227m	£173m
Limit on principal invested beyond year end	£375m	£300m	£300m
Complied	✓	✓	✓

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because the management of the County Council’s cash balance needs to be decided

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

Equalities objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

2.1. This proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

HAMPSHIRE COUNTY COUNCIL

Report

Decision Maker:	Audit Committee
Date:	22 May 2018
Title:	Related Party Disclosure 2017/18 - Update
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Anne Hibbert – Corporate Accounting Manager

Tel: 01962 847533

Email: anne.hibbert@hants.gov.uk

1. Recommendations

- 1.1. That for the current County Councillor who, as at 31 May 2018 has not returned their 2017/18 related party declaration to the Director of Corporate Resources, that Councillor will be referred to the Conduct Advisory Panel.
- 1.2. That the Audit Committee consider and make suggestions for an alternative approach that will ensure a more efficient collection of declarations regarding related party transactions each financial year.

2. Executive Summary

- 2.1. In accordance with the Code of Practice for Local Authority Accounts, the County Council's statement of accounts includes information about its related parties and any transactions between those parties. A related party is an entity or person who is related to the reporting authority and who has control and/or significant influence over the authority. For the County Council, this includes:
 - County Councillors
 - Chief Officers.
 - Members of the close family of, or same household as, a County Councillor or Chief Officer.
 - Partnership, companies, trusts or other bodies in which the County Councillor, Member or Chief Officer, member of their close family or same household, has a controlling interest, or where their influence amounts to control.
- 2.2. Each year, the Director of Corporate Resources requests a declaration from each related party. This request is in addition to the registration of pecuniary and personal interests and specifically requires a declaration regarding related party transactions in the financial year. This report provides an update on the position relating to the financial year 2017/18.

3. Contextual information

- 3.1. In recent years, the return of related party declarations from County Councillors has been less than 100%. This issue of non-compliance and its impact on the County Council's ability to demonstrate and ensure probity of transactions within its accounts was identified in the external auditor's report to the Audit Committee in September 2016.
- 3.2. At that meeting, the Director of Corporate Resources outlined the timescales and process for requesting the declarations, including the provision of guidance on the requirement and also the approach taken regarding non-replies including several individual reminders and where appropriate, follow-up with Group Leaders. The Committee agreed with the process of obtaining these declarations but to avoid the significant administrative effort that has been involved in follow up, that it should be made aware of non-compliance earlier in the process so that appropriate actions could be taken in a more timely manner.

4. Approach and position for 2017/18

- 4.1. Declarations are required retrospectively in relation to the full financial year. With the earlier statutory deadline for publishing the accounts this year, no later than 31 May, requests for declarations were sent earlier this year, on 14 March 2018 with a return date of no later than 6 April 2018. The text of the request was simplified and the declaration required was returnable by email. As at 6 April, 11 declarations were outstanding. Consequently individual reminders were sent on 16 and 23 April and the Director of Corporate Resources personally emailed respective Group Leaders on 23 and 30 April and 11 May regarding outstanding returns.
- 4.2. As at 14 May 2018, one declaration remains outstanding, from Councillor Peter Chegwyn and the Director of Corporate Resources has referred this case to the Monitoring Officer to take appropriate action.
- 4.3. The Audit Committee is recommended to inform Councillor Chegwyn that if he has not replied by 31 May 2018, when the Chief Financial Officer must approve and publish the draft statement of accounts for the County Council, he will be referred to the Conduct Advisory Panel for a breach in compliance with County Council procedures.

5. Future direction

- 5.1. In order to avoid the ongoing unnecessary administration involved in numerous attempts to follow up outstanding responses, it is recommended that the Audit Committee consider any alternative approaches that will improve the collection of declarations regarding related party transactions each financial year.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:

It relates to the effective Governance of the County Council.

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Reference</u>
Hampshire County Council Audit Results Report	7771

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

The future approach for collecting declarations will need to consider any impact on equality objectives.

2. Impact on Crime and Disorder:

2.1 The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime. This report has no impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific proposals

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	22 May 2018
Title:	Hampshire Pension Fund and Hampshire County Council Fee Letters 2018/19
Report From:	Director of Transformation and Governance – Corporate Services

Contact name: Adam Swain (External Auditors)

Tel: 01189 281001 **Email:** aswain@uk.ey.com

1. Recommendations

That the Audit Committee receives and notes:

- 1.1. The Hampshire Pension Fund Fee Letter 2018/19 as attached at Appendix 1.
- 1.2. The Hampshire County Council Fee Letter 2018/19 as attached at Appendix 2.

CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
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- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

A high level Equalities Impact Assessment has been undertaken. The grants are intended to have a positive impact and advance equality.

2. Impact on Crime and Disorder:

2.1 Not applicable.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable.

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John Coughlan
Chief Executive
Hampshire Pension Fund
The Castle
Winchester
Hampshire
SO23 8UJ

23 April 2018

Ref: HPF 1819 FL

Direct line: 07769 932604

Email: MGrindley@uk.ey.com

Dear John

Annual Audit 2018/19

We are writing to confirm the audit that we propose to undertake for the 2018/19 financial year at Hampshire Pension Fund.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 apply for principal local government and police bodies. These audited bodies are responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. Public Sector Audit Appointments Ltd (PSAA) has appointed auditors for bodies that have opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23. Appointments for all bodies that had opted into the appointing person scheme before 9 March 2017 were confirmed, following consultation, in December 2017.

Indicative audit fee

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its national auditor appointment scheme. Following consultation on its Work Programme and Scale of Fees, PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent from the fees applicable for 2017/18.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the audit of the financial statements

For Hampshire Pension Fund our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by Hampshire Pension Fund;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2017/18, our audit planning process for 2018/19 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Summary of fees

	Indicative fee 2018/19 £	Planned fee 2017/18 £	Actual fee 2016/17 £
Total Code audit fee	24,442	31,743	31,743

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments £6,110.50.

Audit plan

Our plan is expected to be issued in December 2018. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Corporate Resources and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me as your Engagement Lead. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to

look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely,



Maria Grindley
Associate Partner
For and on behalf of Ernst & Young LLP
cc. Carolyn Williamson, Director of Corporate Resources
Keith Evans, Chair of the Audit Committee

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John Coughlan
Chief Executive
Hampshire County Council
The Castle
Winchester
Hampshire
SO23 8UJ

23 April 2018

Ref: HCC 1819 FL

Direct line: 07769 932604

Email: MGrindley@uk.ey.com

Dear John

Annual Audit 2018/19

We are writing to confirm the audit that we propose to undertake for the 2018/19 financial year at Hampshire County Council.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 apply for principal local government and police bodies. These audited bodies are responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. Public Sector Audit Appointments Ltd (PSAA) has appointed auditors for bodies that have opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23. Appointments for all bodies that had opted into the appointing person scheme before 9 March 2017 were confirmed, following consultation, in December 2017.

Indicative audit fee

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its national auditor appointment scheme. Following consultation on its Work Programme and Scale of Fees, PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent from the fees applicable for 2017/18.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements;
- Value for money conclusion; and
- Whole of Government accounts.

For Hampshire County Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- We can rely on the work of internal audit as planned;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by Hampshire County Council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2017/18, our audit planning process for 2018/19 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Summary of fees

	Indicative fee 2018/19 £	Planned fee 2017/18 £	Actual fee 2016/17 £
Total Code audit fee	89,720	116,519	116,519

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments £22,430.

Audit plan

Our plan is expected to be issued in December 2018. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Corporate Resources and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me as your Engagement Lead. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely,



Maria Grindley
Associate Partner
For and on behalf of Ernst & Young LLP
cc. Carolyn Williamson, Director of Corporate Resources
Keith Evans, Chair of the Audit Committee

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	22 May 2018
Title:	Minutes of the Hampshire Pension Fund Panel and Board Meeting - 15 December 2017 (Less Exempt)
Report From:	Director of Transformation and Governance – Corporate Services

Contact name: Emma Clarke

Tel: 01962 847356

Email: emma.clarke@hants.gov.uk

1. Recommendation

- 1.1 That the Audit Committee receives and notes the minutes of the Hampshire Pension Fund Panel and Board meeting held on 15 December 2017 as attached at Appendix 1.

CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

A high level Equalities Impact Assessment has been undertaken. The grants are intended to have a positive impact and advance equality.

2. Impact on Crime and Disorder:

2.1 Not applicable.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable.

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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held in the Mitchell Room, EII Podium, Winchester on Friday, 15th December, 2017

Chairman:
a Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

p C. Carter	p A. Joy
p A. Dowden	p P. Latham
p A. Gibson	p J. Glen
a B. Tennent	p T. Thacker

Employer Representatives (Co-opted members):

a Councillor P. Giddings (Test Valley Borough Council)
a Councillor M. Chaloner (Southampton City Council)
p Mr D. Robbins (Churchers College)
p Councillor H. Mason (Portsmouth City Council) (substitute for Cllr Giddings and Cllr Chaloner)

Scheme Member Representatives (Co-opted members):

p Dr C. Allen (pensioners' representative)
p Mr N. Wood (scheme members representative)
p Mrs V. Arrowsmith (deferred members' representative)

Independent Adviser:

p C. Dobson

BROADCASTING ANNOUNCEMENT

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

55. APOLOGIES FOR ABSENCE

Cllrs Kemp-Gee, Giddings, Tennent and Chaloner sent their apologies.

56. DECLARATIONS OF INTEREST

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the

meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

57. CONFIRMATION OF MINUTES (NON-EXEMPT)

The minutes of the Pension Fund Panel and Board held on 3 November 2017 were confirmed.

58. CHAIRMAN'S ANNOUNCEMENTS

There were no announcements.

59. GOVERNANCE - PENSIONS ADMINISTRATION UPDATE

The Panel and Board received a report from the Director of Corporate Resources (Item 5 in the Minute Book) on the administration of the Pension Fund. The Panel and Board had approved at its last meeting that the Fund's employers were consulted on updates to the Administration Strategy. One response was received in the consultation period which resulted in a change to the employer service standards. A further change was made to the consultation draft with an amendment to the approval level for the delegation to approve the Administering Authority's discretion in relation to deciding to whom a death grant is paid.

Pensions Services met its service standards for the first 2 quarters of 2017/18 and met the statutory deadline for the production of over 50,000 annual member benefit statements.

Pension Services have been approached by a number of the Fund's employers who have asked if they can sign the TUC's 'Dying to Work' charter, which includes the principle that employers will continue to employ staff who are terminally ill, so that their families can benefit from death in service benefits, rather than the employee taking ill health retirement. The charter will be highlighted to employers to confirm that they can sign up to it. Ill health costs and death in service costs are shared across all employers in the Fund and it is not expected that the charter will increase costs to the Pension Fund, but it will also be highlighted to employers that the actuary can certify additional contributions if a particular employer's experience is materially out of line with the rest of the Fund.

RESOLVED:

- (a) The updated Administration Strategy is published.
- (b) Employers may sign the 'Dying to Work' Charter if they wish to.
- (c) That the performance information for the first 2 quarters of 2017/18 was noted.

60. **GOVERNANCE - EMPLOYER POLICY AND FUNDING STRATEGY STATEMENT**

The Panel and Board received a report from the Director of Corporate Resources (Item 6 in the Minute Book) proposing updates to the Pension Fund's Funding Strategy Statement and Employer Policy. Several employers have approached Pensions Services to understand the implications if they were to setup wholly own companies. The Funding Strategy and Employer Policy need to be amended to establish a higher contribution rate for wholly owned companies due to the greater risk presented to the Fund and/or requiring the controlling employer to be the guarantor.

The Fund actuary has recommended a change in the approach to setting funding targets for admitted bodies so that tax raising authorities are required to provide a subsumption commitment to their associated admitted body to address the emerging funding gap between funding from the ongoing orphan target and the low risk gilts exit position.

RESOLVED:

That the updated Funding Strategy Statement and Employer Policy are published for consultation.

61. **GOVERNANCE - STATUTORY STATEMENTS**

The Panel and Board received a report from the Director of Corporate Resources (Item 7 in the Minute Book) proposing updates to the Pension Fund's Funding Strategy Statement and Employer Policy. Several employers have approached Pensions Services to understand the implications if they were to setup wholly own companies. The Funding Strategy and Employer Policy need to be amended to establish a higher contribution rate for wholly owned companies due to the greater risk presented to the Fund and/or requiring the controlling employer to be the guarantor.

The Fund actuary has recommended a change in the approach to setting funding targets for admitted bodies so that tax raising authorities are required to provide a subsumption commitment to their associated admitted body to address the emerging funding gap between funding from the ongoing orphan target and the low risk gilts exit position.

RESOLVED:

That the updated Funding Strategy Statement and Employer Policy are published for consultation.

62. **INVESTMENTS - CASH INVESTMENTS STRATEGY**

The Panel and Board considered a report of the Director of Corporate Resources (Item 8 in the Minute Book) on the Pension Fund's cash balances and the Annual Investment Strategy for those cash balances for 2018/19. The Annual

Investment Strategy had been prepared taking into account advice from the County Council's treasury management advisers, Arlingclose.

RESOLVED:

- (a) That the Annual Investment Strategy for 2018/19 be approved.
- (b) That the Annual Investment Strategy be implemented from the date of this meeting for the remainder of 2017/18.
- (c) That the Director of Corporate Resources be authorised to manage the Fund's cash balances in accordance with the policy set out in the report.

63. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

64. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 3 November 2017 were confirmed.

65. INVESTMENTS - CASH INVESTMENTS STRATEGY - EXEMPT APPENDIX

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 11 in the Minute Book) supporting the Pension Fund's Annual Cash Investment Strategy.

66. INVESTMENT - INVESTMENT UPDATE

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 12 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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