

# Public Document Pack



## NOTICE OF MEETING

<b>Meeting</b>	Audit Committee
<b>Date and Time</b>	Thursday, 20th December, 2018 at 2.00 pm
<b>Place</b>	Chute Room, EII South, The Castle, Winchester
<b>Enquiries to</b>	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 - 26 JULY 2018 (Pages 5 - 10)

To confirm the minutes of the previous meeting held on 26 July 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 11 - 16)**

To receive the quarterly update on the County Council's use of regulated investigatory powers.

**7. INTERNAL AUDIT PROGRESS REPORT (NOVEMBER 2018) (Pages 17 - 42)**

To consider a report of the Director of Corporate Resources – Corporate Services with an update on internal audit progress.

**8. TREASURY MANAGEMENT MONITORING REPORT 2018/19 (Pages 43 - 56)**

To consider a report of the Director of Corporate Resources – Corporate Services with an update on the County Council's Treasury Management Strategy.

**9. ANNUAL AUDIT LETTER - 2017/18 (Pages 57 - 80)**

To receive the annual audit letter from the external auditors – Ernst and Young.

**10. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 22 JUNE, 27 JULY AND 28 SEPTEMBER 2018 (LESS EXEMPT) (Pages 81 - 98)**

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meetings held on 22 June, 27 July and 28 September 2018.

**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 Paragraphs 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 - 22 JUNE, 27 JULY AND 28 SEPTEMBER 2018 (EXEMPT) (Pages 99 - 118)**

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meetings held on 22 June, 27 July and 28 September 2018.

**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](mailto: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, 26th July, 2018

Chairman:

p. Councillor Keith Evans

p. Councillor Alexis McEvoy  
p. Councillor Dominic Hiscock  
a. Councillor Keith House  
p. Councillor Mark Kemp-Gee  
p. Councillor Derek Mellor  
p. Councillor Rob Mocatta

p. Councillor Lance Quantrill  
p. Councillor Tom Thacker  
p. Councillor David Harrison

## 68. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillor House. Councillor Harrison was in attendance as the Liberal Democrat deputy member.

## 69. **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.

## 70. **MINUTES OF PREVIOUS MEETING**

The minutes of the meeting held on 22 May were agreed as a correct record and signed by the Chairman.

## 71. **DEPUTATIONS**

There were no deputations.

## 72. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

**73. EXTERNAL AUDIT REPORTS 2017/18 - HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND**

The Committee received and noted the external auditors report for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2018.

In response to Members' questions it was confirmed that:

- The audit had been conducted to a materiality level and lower value transactions had not specifically been reviewed. The reporting had a set tolerance level and focused upon procedural management within the County Council and not recovering small errors or anomalies.
- The audit had been completed using data analytics software. Members heard that previous audits had been based upon samples from the entire population of data whereas data analytics enabled the entire population of information to be analysed to produce a more holistic interpretation. It was noted that this approach had allowed for a more realistic evaluation of the data and increased value in terms of providing meaningful feedback.
- Data protection procedures between the County Council and the external auditors were extremely thorough and in accordance with General Data Protection Regulations. It was confirmed that the initial transfer of data from the County Council was encrypted and certain personal fields were removed. Once complete, the data was deleted in its entirety from the auditor's devices. Furthermore, Members were reassured to hear that the auditors themselves were subject to external review to ensure their data security and compliance.

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

The Committee considered the report of the Directors of Culture, Communities and Business Services and Transformation and Governance– Corporate Services (Item 6 in the Minute Book).

It was clarified that the data shown within Table A, on page 95 of the report, related to prosecutions which had been made as a direct result of the use of surveillance. Members heard that since Trading Standards had introduced its new Intelligence Operating Model the requirement for surveillance activity had decreased.

RESOLVED:

- i) That the Audit Committee notes the contents of this report and that the County Council's surveillance powers continue to be exercised appropriately and proportionately.
- ii) That the Audit Committee provides assurance to the Executive Member for Policy and Resources that the County Council has undertaken its

surveillance powers throughout the previous financial year in a lawful and proportionate manner and that it will continue to do so.

**75. INTERNAL AUDIT ANNUAL REPORT & OPINION 2017-18**

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources outlining the annual report and opinion of the Chief Internal Auditor regarding the County Council's framework of risk management, internal control and governance.

It was confirmed that, for each of the services whereby risks had been identified, a comprehensive action plan was in place and the results from these were due to inform the next audit.

RESOLVED:

That the Audit Committee approves the Internal Audit Annual Report & Opinion 2017-18.

**76. ANNUAL FRAUD REPORT 2017-18**

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources (Item 8 in the Minute Book) with an overview of reactive and proactive counter fraud activity undertaken by internal audit throughout 2017-18.

RESOLVED:

That the Audit Committee notes the Annual Fraud Report 2017-18.

**77. INTERNAL AUDIT PLAN 2018-19**

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources (Item 9 in the Minute Book) with an overview of the County Council's Internal Audit Plan.

RESOLVED:

That the Audit Committee approves the Audit Plan for 2018 – 2019.

**78. INTERNAL AUDIT CHARTER 2018-19**

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources (Item 10 in the Minute Book) presenting the Internal Audit Charter 2018-19 in accordance with the requirements of the Public Sector Internal Audit Standards.

RESOLVED:

That the Audit Committee approves the Internal Audit Charter 2018-19.

79. **ANNUAL GOVERNANCE STATEMENT**

The Committee considered the report of the Directors of Transformation and Governance and Corporate Resources – Corporate Services (Item 11 in the Minute Book) presenting the Annual Governance Statement for 2017-18.

Discussion was held regarding the action plan and Members felt that setting targets for continual self evaluation and improvement was important. As part of the discussion, the governance of joint and partnership working was mentioned and Members were keen to ensure that the high standard of governance at the County Council was maintained throughout joint working programmes.

RESOLVED:

That the Audit Committee approves the draft Annual Governance Statement for signature by the Leader of the County Council and the Chief Executive.

80. **STATEMENT OF ACCOUNTS 2017/18**

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources (Item 13 in the Minute Book) with the annual Statement of Accounts for 2017-18.

Members were grateful for the significant workload which had gone into producing the Statement of Accounts and recorded their thanks to all officers who had been involved.

RESOLVED:

- i) That the Statement of Accounts for 2017/18 for Hampshire County Council and the Hampshire Pension Fund be approved.
- ii) That the letters of representation for Hampshire County Council and the Hampshire Pension Fund attached at Appendix 1 to the report be signed.
- iii) That delegated authority be given to the Deputy Chief Executive and Director of Corporate Resources to approve any minor amendments to the Statement of Accounts prior to the issue of the final audit opinion and publication of the Statement of Accounts.
- iv)

81. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 9 APRIL 2018 (LESS EXEMPT)**

The Committee received and noted the non-exempt minutes from the Hampshire Pension Fund Panel and Board meeting held on 9 April 2018 (Item 14 in the Minute Book).



**82. 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 Paragraph 3 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.

**83. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 9 APRIL 2018 (EXEMPT)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 9 April 2018 (Item 16 in the Minute Book).

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## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Committee/Panel:</b>	Audit Committee
<b>Date:</b>	20 December 2018
<b>Title:</b>	Information Compliance – Use of Regulated Investigatory Powers
<b>Report From:</b>	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 as attached at Appendix 1.

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

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	yes
<b>People in Hampshire enjoy a rich and diverse environment:</b>	yes
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	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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# Quarterly Reporting of Surveillance

## Number of Authorisations by Quarter (1 April 2018 – 31 March 2019)

Direct Surveillance			
	Purpose of Surveillance		
2018-19 Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3			
4			
<b>Total -</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

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

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

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	20 December 2018
<b>Title:</b>	Internal Audit Progress Report (November 2018)
<b>Report From:</b>	Deputy Chief Executive & Director of Corporate Resources

**Contact name:** Neil Pitman

**Tel:** 01962 845139

**Email:** Neil.pitman@hants.gov.uk

#### 1. Recommendation

1.1. That the Audit Committee notes the Internal Audit Progress report for the period to November 2018 as attached at Appendix 1.

#### 2. Executive Summary

2.1. The purpose of this paper is to provide the Audit Committee with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports

#### 2. Contextual information

2.1. Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

2.2. In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;

- a summary of internal audit performance, planning and resourcing issues; and
- a summary a significant issues that impact on the Chief Internal Auditor's annual opinion

2.3. Appendix 1 summarises the activities of internal audit for the period up to November 2018.

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

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> 'Board' approval of the Internal Audit Plan, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards	

**Other Significant Links**

<b>Links to previous Member decisions:</b>	
<u>Title</u>	<u>Date</u>
Internal Audit Charter	26 July 2018
<b>Direct links to specific legislation or Government Directives</b>	
<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:**

Equality objectives are not considered to be adversely affected by the proposals within this report

### **2. Impact on Crime and Disorder:**

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, however internal audit work is planned to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption? *No specific changes.*
- 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.*

## Internal Audit Progress Report

November 2018

Hampshire County Council



## Southern Internal Audit Partnership

Assurance through excellence  
and innovation

**Contents:**

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## 1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

*‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’*

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards – updated 2017 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

*‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes.’*

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

## 2. Purpose of report

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

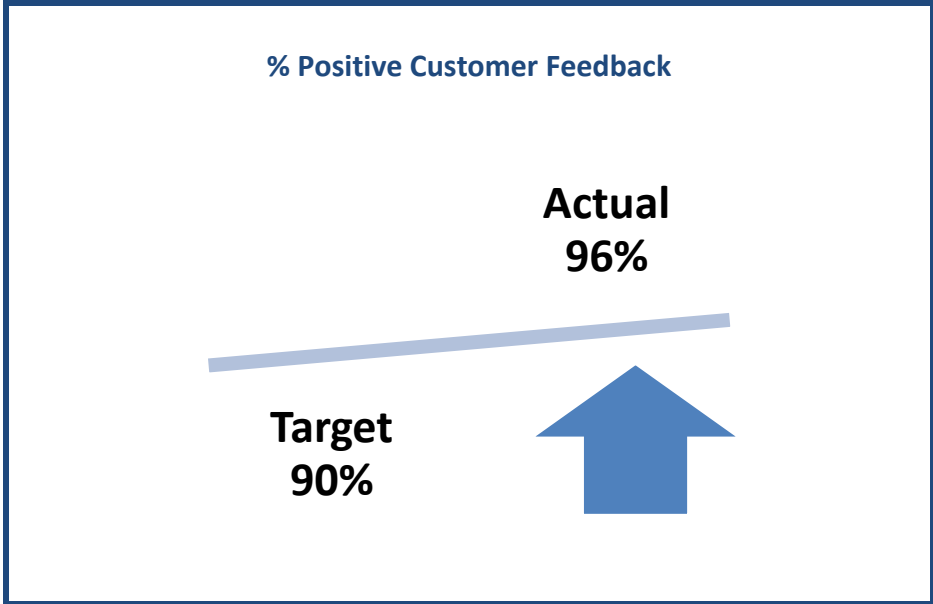
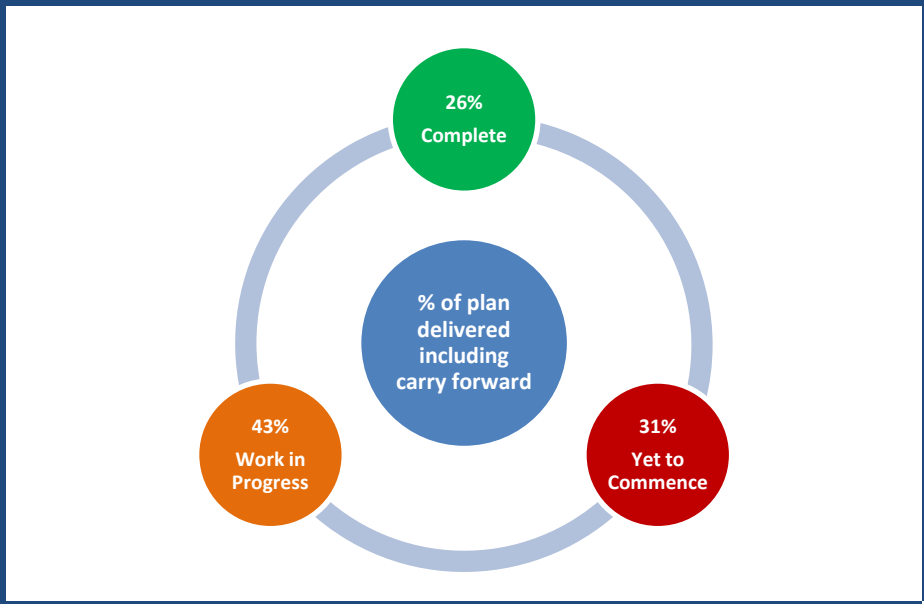
- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:


<b>Substantial</b>	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified.
<b>Adequate</b>	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
<b>Limited</b>	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
<b>No</b>	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.



3. Performance dashboard



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Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
	<p>An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:</p> <p><i>'It is our view that the Southern Internal Audit Partnership 'generally conforms' (top grading) to <u>all</u> of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).</i></p>

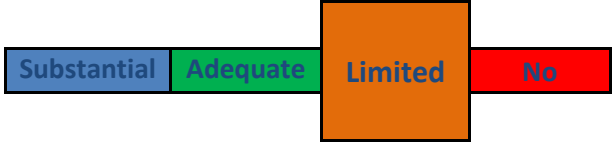

#### 4. Status of 'Live' Reports

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Insurance Fund	19.10.16	T&G	Adequate	1(1)	0(0)	0(0)	0(0)	1(1)
Grants Granted	23.02.17	CS	Limited	9(7)	0(0)	0(0)	8(7)	1(0)
IBC Order to Cash	27.03.17	CR	Adequate	5(4)	0(0)	0(0)	4(4)	1(0)
Medicine Control LD/PD Units	09.05.17	AS	Limited	16(14)	0(0)	0(0)	14(12)	2(2)
Remote Working Solutions	26.06.17	CR	Adequate	15(3)	0(0)	1(1)	14(2)	0(0)
Property Management	25.07.17	CCBS	Adequate	1(0)	0(0)	0(0)	0(0)	1(0)
Hampshire Health Record	26.07.17	AH&C	Limited	10(1)	0(0)	0(0)	10(1)	0(0)
Procurement - Outdoor Centres	04.08.17	CCBS	Adequate	17(2)	0(0)	0(0)	16(2)	1(0)
Respite for LD and PD	28.09.17	AH&C	Adequate	6(5)	0(0)	0(0)	5(5)	1(0)
Medicine Control in OP Units	28.09.17	AH&C	Adequate	9(5)	0(0)	0(0)	8(4)	1(1)
Payroll support	01.12.17	CR	Substantial	2(1)	0(0)	2(1)	0(0)	0(0)
Special Guardianship Orders	08.01.18	CS	Limited	11(4)	0(0)	0(0)	8(2)	3(2)
Payroll	26.02.18	CR	Substantial	2(1)	0(0)	2(1)	0(0)	0(0)
Social Media Policy	22.03.18	CE	Adequate	9(6)	0(0)	2(1)	7(5)	0(0)

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Care and support planning	12.04.18	AH&C	Limited	17(11)	0(0)	2(2)	9(7)	6(2)
Disability related expenses	12.04.18	AH&C	Adequate	7(0)	0(0)	4(0)	3(0)	0(0)
Continuing healthcare	17.04.18	AH&C	Limited	18(0)	0(0)	0(0)	17(0)	1(0)
Health and safety	17.04.18	AH&C	Limited	10(6)	0(0)	1(0)	9(6)	0(0)
Database management and security	14.05.18	CR	Limited	21(3)	0(0)	6(1)	15(2)	0(0)
Procurement – strategy and governance	14.05.18	T&G	Adequate	2(0)	0(0)	0(0)	1(0)	1(0)
Care Leavers	12.06.18	CS	Adequate	8(0)	0(0)	8(0)	0(0)	0(0)
School thematic review – recruitment (follow up)	21.06.18	CS	Adequate	16(14)	0(0)	6(5)	10(9)	0(0)
Out of County Placements	27.06.18	AH&C	Limited	5(4)	0(0)	2(2)	3(1)	0(0)
Business continuity and emergency planning	28.06.18	T&G	Limited	14(1)	0(0)	6(0)	8(1)	0(0)
SAP security and maintenance	05.07.18	CR	Limited	9(0)	0(0)	1(0)	8(0)	0(0)
Network management and monitoring	06.07.18	CR	Adequate	11(1)	0(0)	3(0)	8(1)	0(0)
Integrated reablement	08.08.18	AH&C	Adequate	12(6)	0(0)	1(0)	11(6)	0(0)
Cloud Applications Governance	05.09.18	CR	Adequate	9(0)	0(0)	3(0)	6(0)	0(0)

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Debt Collection (HCC)	06.09.18	CR	Adequate	6(1)	0(0)	2(1)	4(0)	0(0)
Early Years	11.09.18	CS	Substantial	3(0)	0(0)	1(0)	2(0)	0(0)
Cash and assets	11.09.18	CCBS	Adequate	20(8)	0(0)	2(0)	18(8)	0(0)
Proactive: Blue Badges	21.09.18	ETE	Adequate	1(0)	0(0)	1(0)	0(0)	0(0)
Hampshire Transport Management	26.10.18	CCBS	Adequate	2(0)	0(0)	2(0)	0(0)	0(0)
Anton Junior School	01.11.18	CS	Limited	43(19)	0(0)	12(4)	31(15)	0(0)
Health and Safety – statutory checks	02.11.18	CBBS	Limited	6(3)	0(0)	2(0)	4(3)	0(0)

**5. Executive Summaries of new reports published concluding a ‘Limited’ or ‘No’ assurance opinion**

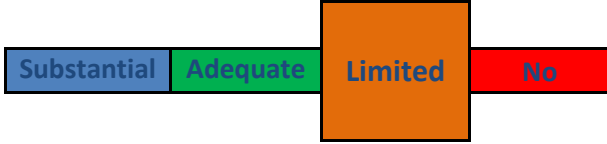

Shared Services Health and safety - statutory checks		
<b>Directorate Sponsor:</b> Director of CCBS	<b>Assurance opinion:</b>	<b>Management Actions:</b>
		
<b>Summary of key observations:</b>		
<p>The Joint Facilities Management Service (JFMS) provides a range of FM related functions to clients at HCC, Police and Fire including the health and safety checks required by legislation or recommended as good practice.</p> <p>A central record of training is held on an Access database system that provides a good level of control over ensuring that all staff have the relevant qualification to undertake their role, providing a prompt when refresher training is required.</p> <p>Whilst maintained disparately, there is currently no centralised record to readily monitor tasks to be undertaken, the date works were carried out or confirmation of completion. Facilities Managers and the Head of Facilities Management carry out spot checks at locations in their areas to gain assurance that the health and safety checks have been completed, however, no records of the spot-checks are retained, albeit, where issues are identified from the spot checks, remedial actions are advised by email which provides some evidence for the spot checks.</p> <p>No performance reporting in relation to health and safety checks are required or requested. It is considered that senior management may benefit from the assurance that checks are being carried out at the appropriate frequency and that performance measures for these are and reported and monitored. The planned enhancement of the Property Asset Management System (PAMS) application should provide the means to readily obtain reports demonstrating that checks are carried out when programmed.</p>		

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Documentation utilised in some areas for the COSH Risk Assessments differed to that contained in the Corporate guidance and whilst differences related primarily to format as opposed to content there is a risk that bespoke documentation may be used and omit important legislative changes, it also creates a duplication of effort with regard creation and maintenance. We understand that there has since been a re-organisation in that Risk Safety officers are now part of the corporate structure as opposed to departmentally based which will assist continuity.

Our assurance opinion is primarily based on the lack of centralised evidence confirming that checks have been carried out rather than a specific concern that checks are not taking place. We also recognise that the Property Asset Management System is being introduced and that the successful roll out should address the issues raised regarding the evidencing of the checks.

**All 'high priority' management actions raised to mitigate identified risks have been implemented.**

<b>Anton Junior School</b>		
<b>Directorate Sponsor: Director of Children's Services</b>	<b>Assurance opinion:</b>  	<b>Management Actions:</b>  
<b>Summary of key observations:</b>  <p>The audit review of Anton Junior School was undertaken at the request of the County Education Manager, School Improvements. The review assessed the effectiveness of controls in place with a focus on finance, governance, HR and payroll. Key areas of weakness included:</p> <p><b>Governance and Management:</b></p> <ul style="list-style-type: none"> <li>• A number of Governors had not completed a signed declaration of pecuniary interests for 17/18;</li> <li>• We were unable to find a documented limit of delegated authority for the Headteacher;</li> <li>• Payments were approved for refreshments at annual events (Christmas and Summer celebrations) directly from school funds; and</li> <li>• There was an absence of Governing Body approval of key policies and procedures</li> </ul> <p><b>Payroll:</b></p> <ul style="list-style-type: none"> <li>• The Pay Policy was incomplete and had not been approved by the Governing Body;</li> <li>• There was no signature to ensure independent authorisation of monthly SAP payroll reports from the Headteacher;</li> <li>• Whilst the Governing Body were seen to have approved pay grade increases for certain staff they had not been provided with any evidence or information to support this decision; and</li> <li>• Some additional payments that the school currently makes to staff are not outlined in the school's Pay Policy as required.</li> </ul>		

**Recruitment:**

- The Deputy Headteacher is the only member of staff who is Safer Recruitment trained. Therefore, any interviews that take place without their involvement would not follow Safer Recruitment requirements; and
- Staff and Governors do not sign to confirm that they have received and read the Keeping Children Safe in Education document.

**Income:**

- Cash was held securely in the safe prior to banking although occasions were highlighted where the school's insurance limit was exceeded;
- Access to the safe is via a combination code and we noted that the code is not changed on a regular basis as required;
- Review of a sample of lettings invoices found that VAT is not being accounted for correctly on sports lets.

**Procurement Cards:**

- The Headteacher's procurement card transactions were not authorised by the Chair of Governors as required;
- A number of transactions were not reviewed by the cardholder and approved by the authoriser across the other procurement cards in place.

**SAP Purchasing:**

- Whilst the SAP system confirmed that all purchases were appropriately authorised, and quotes obtained where required, the purchase order was found to be raised after the invoice or goods had been received in the majority of cases.

**Management actions raised to mitigate identified risks have been addressed and implemented in accordance with agreed timescales.**



## 6. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2015 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2015	01.04.18 – 31.10.18
<b>Part 2 Requirements - Fraud</b>	
<b>Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used</b>	Nil
<b>Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud</b>	3.75 fte
<b>Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists</b>	7 fte*
<b>Total amount of time spent by the authority on the investigation and prosecution of fraud (including NFI)</b>	50 days
<b>Total number of fraud cases investigated</b>	7 ***

\*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers etc.)

\*\*the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

\*\*\* includes 3 cases ongoing from 2017/18

## 7. Planning & Resourcing

The internal audit plan for 2017/18 was approved by the Council's Management Team and the Audit Committee in June 2017.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 8

## 8. Rolling Work Programme

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ Delay)	Comment
<b>2017-18 Carry forward</b>									
Swanwick Lodge	CS	✓	✓	✓	✓	12.06.18	Adequate		
Care Leavers	CS	✓	✓	✓	✓	12.06.18	Adequate		
Integrated Reablement	AH&C	✓	✓	✓	✓	08.08.18	Adequate		
Public Health - Quality and Performance Group	AH&C	✓	✓	✓	✓	10.7.18	Substantial		
<b>Shared Services 17-18 carry forward</b>									
Statutory Checks	CR	✓	✓	✓	✓	02.11.18	Limited		
<b>2018-19 plan</b>									
Traded services	KM	✓							
Transformation	DoTG	✓	✓	✓					
Information management	DoTG	✓	✓	✓					

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (P Delay)	Comment
Business Continuity & Emergency planning	DoTG								
Health and Safety	DoTG								
Capital programme	Various	✓	✓	✓					
Hantsdirect -service standards	ACE								
Information security	DoTG								
Local management of shared services processes	DoTG	✓	✓	✓	✓	18.09.18	Adequate		
GDPR	DPG								
Prevent	AHC								
Assurance mapping	DoCR	N/A	N/A	✓	N/A	N/A	N/A		T21 Initiative
Annual governance statement	T&G	N/A	N/A	✓	N/A	N/A	N/A		
Annual self- assessment -PSIAS	DoCR	N/A	N/A	✓	N/A	N/A	N/A		
HR Time recording and monitoring - advice	DoCR								
SAP security	DoCR	✓							
IT Service Management	DoCR								
IT operating systems	DoCR	✓							
Wireless security	DoCR								
IT assurance mapping	DoCR								

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (P Delay)	Comment
Hosted Schools Services (HSS)	DoCR								
IT Disaster recovery	DoCR								
PCI compliance testing	DoCR	N/A	N/A	N/A	✓	13.07.18	N/A		Consultancy and assessment work
Business applications	DoCR	✓	✓	✓					
Cloud application governance	DoCR	✓	✓	✓	✓	05.09.18	Adequate		
ISO27001	DoCR	N/A	N/A	N/A	N/A	N/A	Complete		Advice / Support
Safeguarding - Children	CS								
School thematic-part time timetables	CS								
School thematic-School web content	CS	✓	✓	✓					
School thematic-GDPR Compliance	CS	✓	✓	✓					
School thematic-TBC 4	CS								
Woodcroft Primary School	CS	✓	✓	✓	✓	14.06.18	Adequate		
Anton Junior School	CS	✓	✓	✓	✓	01.11.18	Limited		
Thematic-Children's establishments	CS								
SFVS	CS	✓	N/A	✓					
Home to school transport	CS	✓	✓	✓					
Use of Agency Staff	CS	✓	✓	✓					
Early years	CS	✓	✓	✓	✓	10.9.18	Substantial		

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (P Delay)	Comment
AHC thematic-Health and Safety	AHC	✓	✓	✓					
AHC thematic-Contract management	AHC								
AHC thematic-Clients property	AHC	✓	✓	✓	✓				
AHC thematic-FNC Assessments	AHC	✓	✓						
Large scale investigations	AHC	✓	✓	✓					
Public Health - strategy	AHC	✓	✓	✓					
Integrated community equipment store and Technicians Service	AHC	✓	✓	✓	✓				
Care at Home	AHC								
Multi Agency Safeguarding Hub	AHC								
Information Governance	AHC	✓	✓	✓	✓				
Approved Mental Health Professionals - Approval and Warranting Process	AHC								
MH-Management of Nearest Relative	AHC	✓	✓	✓	✓				
MH-Management of Guardianship	AHC								
County and Local Support Plan Oversight Groups	AHC	✓							
Brokerage Team	AHC								
Payments to providers	AHC								
Developer contributions	ETE	✓	✓	✓	✓				

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (P Delay)	Comment
Traffic management	ETE								
Regeneration	ETE	✓							
M3 Enterprise LEP (Accountable Body Arrangements)	ETE								
Economic Development (Key Sites Portfolio)	ETE	✓	✓	✓					
Business units - Hampshire Transport Management	Various	✓	✓	✓	✓	26.10.18	Adequate		
Business units - County Supplies	CCBS	✓	✓	✓					
Contract management-Children's Services	CMT/ DoPG								
Contract management - Street lighting	ETE	✓	✓	✓					
Superfast Broadband programme	CCBS								
Intelligent Transport System	ETE								
Contract management - Hampshire Highways Service Contract	ETE	✓	✓	✓					
Contract management - CCBS	CCBS	✓							
Term maintenance Contract	CCBS	✓	✓						
Minor Works Framework	CCBS	✓	✓						
Hampshire Highways Service Contract (Finance)	ETE	✓	✓	✓	✓	24.07.18	substantial		

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (P Delay)	Comment
RHPP	CCBS	✓	N/A	N/A	N/A	26.06.18	N/A		Accounts review
HCC Local Transport Capital Block Funding (including pot hole funding)	ETE	✓	N/A	✓	N/A	30.09.18	Certified		
Bus Rapid Transit	ETE								
Safer Roads Fund (A27)	ETE	✓	N/A	✓	N/A	26.09.2018	Certified		
Safer Roads Fund (A32)	ETE	✓	N/A	✓	N/A	26.09.2018	Certified		
Safer Roads Fund (A36)	ETE	✓	N/A	✓	N/A	26.09.2018	Certified		
Flood resilience fund	ETE	✓	N/A	✓	N/A	Sept 2018	Certified		
LA bus subsidy grant	ETE	✓	N/A	✓	N/A	Sept 2018	Certified		
Enterprise M3 growth hub grant	ETE	✓	N/A	✓	N/A	Sept 2018	Certified		
<b>Shared Services 18-19 plan</b>									
Governance arrangements	CR	✓	✓	✓	✓				
ICT - user accesses	CR	✓	✓	✓					
Recruitment	CR								
OHU/ESL	CR	✓	✓	✓	✓				External clinical review
Payroll	CR	✓	✓	✓					
Workforce Development	CR	✓	✓	✓	✓				
Ill Health Retirement & Death in Service	CR	✓	✓	✓					

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (P Delay)	Comment
Sick pay	CR	✓	✓	✓					
IR35	CR								
Order to cash (OTC)	CR	✓	✓	✓					
Purchase to pay (P2P)	CR	✓	✓	✓					
Debt Collection	CR	✓	✓						
Master Data Team	CR	✓							
Commercial waste contract management	CR	✓	✓	✓					
Procurement (three reviews)	CR	✓	✓	✓					



The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the County Council. Below are the variations made to the original 2018/19 audit plan approved by the Audit Committee in June 2018.

Plan Variations	
Removed from the plan	Reason
Local Bus Subsidy Support	Deferred to 2019/20 due to T19 reviews.
Case loads / waiting lists	Deferred at the request of management pending review of the social work health survey published in May 2018.
Risk management	Time moved to provide advice on assurance mapping to assist with the actions outlined in the Annual Governance Statement.
Shared services – category management	No new category plans completed since the last review.
Property management	Deferred due to major restructure taking place.
Shared services – treasury management	Deferred due to changes in the Prudential Code
Contract administration – property services	Deferred due to restructure taking place.
Additions to the plan	Reason
Cloud Applications Governance	Request by the Head of IT to review governance arrangements.

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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	20 December 2018
<b>Title:</b>	Treasury Management Monitoring Report 2018/19
<b>Report From:</b>	Deputy Chief Executive and Director of Corporate Resources

**Contact name:** Gemma Farley

**Tel:** 01962 847540

**Email:** Gemma.farley@hants.gov.uk

#### 1. Recommendation

- 1.1. The Audit Committee are asked to note the following recommendation that was reported to Cabinet and Full Council:
- 1.2. The mid-year report on treasury management activity be noted.

#### 2. Executive Summary

- 2.1. In February 2010 the County Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the County Council to approve treasury management semi-annual and annual reports.
- 2.2. This report fulfils the County Council's legal obligation to have regard to the CIPFA Code.
- 2.3. The County Council's Treasury Management Strategy (TMS) for 2018/19 was approved at a meeting of the County Council in February 2018. 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 TMS.
- 2.4. Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England the Ministry of Housing, Communities & Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.
- 2.5. The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full council covering capital expenditure and financing, treasury management and non-treasury investments. The County Council will be

producing its Capital Strategy later in 2018/19 for approval by full County Council.

2.6. 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.”

2.7. 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.

2.8. All treasury activity has complied with the County Council’s TMS and Investment Strategy for 2018/19, 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 TMS.

### **3. External Context**

3.1. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions have been made to date in 2018/19.

#### **Economic commentary**

3.2. UK Consumer Price Inflation (CPI) index fell to 2.4% in June, a 12-month low, as the effects of sterling’s large depreciation in 2016 began to fade. However CPI ticked back up marginally to 2.5% in July, mostly due to higher energy prices, and up again to 2.7% in August from cultural services, where theatre admission prices rose by more than a year ago, and games, toys and hobbies, where prices for computer games rose this year but fell a year ago. The most recent labour market data for July 2018 showed the unemployment rate at 4%; the lowest since 1975. The three month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9%. However, real wages (i.e. adjusted for inflation) grew only by 0.4%, a marginal increase unlikely to have had much effect for households.

3.3. The rebound in Gross Domestic Product (GDP) growth in Quarter 2 of 2018 to 0.4% confirmed that the weakness in economic growth in Quarter 1 was temporary and largely due to weather-related factors. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking the Bank Rate to 0.75%. No further change was made to monetary policy at the Bank of England’s meeting in September.

## Credit background

- 3.4. The big four UK banks are progressing well with ringfencing. Barclays Bank PLC and HSBC Bank PLC have created new banks (Barclays Bank UK and HSBC UK Bank) and transferred ringfenced (retail) business lines into the new companies. Lloyds Bank PLC has created Lloyds Bank Corporate Markets as a new non-ringfenced (investment) bank. RBS has renamed existing group entities and transferred accounts to leave NatWest Markets as the non-ringfenced bank and NatWest Bank, Royal Bank of Scotland and Ulster Bank as the ring-fenced banks. The County Council's day-to-day banking contract remains with NatWest Bank.

## 4. Local Context

- 4.1. On 31 March 2018, the County Council had net borrowing of £29.1m arising from financing its historical capital programme. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below:

**Table 1: Balance Sheet Summary**

	<b>31/03/2018 Balance £m</b>
CFR	(764.0)
Less: Other Debt Liabilities*	164.2
Borrowing CFR	(599.8)
Less: Resources for Investment	570.7
<b>Net Borrowing</b>	<b>(29.1)</b>

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

- 4.2. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30 September 2018 and the movement since 31 March 2018 is shown in Table 2 overleaf.

**Table 2: Treasury Management Summary**

	<b>31/03/2018 Balance £m</b>	<b>Movement £m</b>	<b>30/09/2018 Balance £m</b>	<b>30/09/2018 Rate %</b>
Long-term Borrowing	(280.0)	1.6	(278.4)	(4.66)
Short-term Borrowing	(7.9)	4.8	(3.1)	(3.30)
<b>Total Borrowing</b>	<b>(287.8)</b>	<b>6.3</b>	<b>(281.5)</b>	<b>(4.65)</b>
Long-term Investments	289.3	15.0	304.3	2.89
Short-term Investments	240.5	(9.6)	230.9	1.34
Cash & Cash Equivalents	32.4	(2.3)	30.1	0.69
<b>Total investments</b>	<b>562.2</b>	<b>3.1</b>	<b>565.3</b>	<b>2.14</b>
<b>Net Investments</b>	<b>274.4</b>	<b>9.4</b>	<b>283.8</b>	

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.

- 4.3. The increase in net investments of £9.4m shown in Table 2 above reflects the combination of repayment of Public Works Loan Board (PWLB) borrowing of £6.3m, and a small increase in investment balances of £3.1m. The repayment of borrowing is in line with the County Council's policy on internal borrowing, whilst the increase in total investments since 31 March 2018 reflects the annual position of 31 March bearing the lowest investment balances, due to many government grants being front-loaded.

## **5. Borrowing Activity**

- 5.1. As shown in Table 2, at 30 September 2018 the County Council held £282m of loans, a decrease of £6m to 31st March 2018, as part of its strategy for funding previous years' capital programmes. This varies from the mid-year treasury management borrowing position and movement since 31 March 2018 shown in Table 3 overleaf; as the treasury management borrowing position excludes borrowing taken out on behalf of others.

**Table 3: Borrowing Position**

	<b>31/03/2018 Balance £m</b>	<b>Movement £m</b>	<b>30/09/2018 Balance £m</b>	<b>30/09/2018 Rate %</b>	<b>30/09/2018 WAM* years</b>
PWLB	243.4	(6.2)	237.2	4.69	12.16
Banks (LOBO)	20.0		20.0	4.76	15.29
Banks (Fixed Term)	21.0		21.0	4.21	21.91
<b>Total Borrowing</b>	<b>284.4</b>	<b>(6.2)</b>	<b>278.2</b>	<b>4.66</b>	<b>13.12</b>

\* Weighted average maturity

Note: the figures in the table above as at 31/03/2018 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. In keeping with these objectives, no new borrowing was undertaken in the period, while £6.2m of existing loans were allowed to mature without replacement. 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 are 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. The County Council continues to hold £41m of market loans (£20m of which are Lender's Option Borrower's Option (LOBO) loans, and £21m of which were LOBO but have now been converted to fixed term loans by the lender). 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. No banks exercised their option during the first half of 2018/19.

## **6. Investment Activity**

- 6.1. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves. The County Council's investment holding was £565m at 30 September 2018, which was £8m (1.4%) lower than the same time last year. During the six month period from 1 April to 30 September 2018, the County Council's investment balance ranged between £562m and £665m due to timing differences between income and expenditure. Table 4 below shows investment activity for the

County Council as at 30 September 2018 in comparison to the reported activity as at 31 March 2018:

**Table 4: Investment Position (Treasury Investments)**

<b>Investments</b>	<b>31/03/2018 Balance £m</b>	<b>Movement £m</b>	<b>30/09/2018 Balance £m</b>	<b>30/09/2018 Rate %</b>	<b>30/09/2018 WAM* years</b>
<b><i>Short term Investments</i></b>					
Banks and Building Societies:					
- Unsecured	11.7	8.8	20.5	0.76	0.09
- Secured	55.0	(2.6)	52.4	1.11	0.39
Money Market Funds	25.7	(4.6)	21.1	0.68	0.01
Local Authorities	160.5	(38.5)	122.0	1.36	0.45
Registered Provider	20.0	-	20.0	2.30	0.33
Cash Plus Funds	-	20.0	20.0	0.67	n/a
	<b>272.9</b>	<b>(16.9)</b>	<b>256.0</b>	<b>1.22</b>	<b>0.36</b>
<b><i>Long term Investments</i></b>					
Banks and Building Societies:					
- Secured	78.3	-	78.3	0.99	2.57
Local Authorities	61.0	20.0	81.0	1.29	2.43
	<b>139.3</b>	<b>20.0</b>	<b>159.3</b>	<b>1.14</b>	<b>2.50</b>
<b><i>Long term Investments – high yielding strategy</i></b>					
Local Authorities					
- Fixed deposits	20.0	-	20.0	3.96	15.47
- Fixed bonds	10.0	-	10.0	3.78	15.27
Pooled Funds					
- Pooled property**	55.0	-	55.0	4.35	n/a
- Pooled equity**	40.0	-	40.0	6.47	n/a
- Pooled multi-asset**	20.0	-	20.0	4.13	n/a
Registered Provider	5.0	-	5.0	3.40	0.58
	<b>150.0</b>	<b>-</b>	<b>150.0</b>	<b>4.76</b>	<b>13.29</b>
<b>Total Investments</b>	<b>562.2</b>	<b>3.1</b>	<b>565.3</b>	<b>2.14</b>	<b>2.20</b>

\* Weighted average maturity

\*\* The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 30 September 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 government guidance require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum 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. During the first half of 2018/19, £38.5m of short-term local authority investments have matured, and opportunities were taken to reinvest £20m into longer term local authority investments, and £20m into cash plus funds. Cash plus funds provide a further avenue of diversification of investment instruments to the County Council, and are expected to provide higher returns over the medium term.
- 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 2018/19.
- 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 0.75% in August 2018 and short-term money market rates have remained at relatively low levels which has 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 overleaf:

**Table 5: Investment Benchmarking (Investments Managed In-house)**

	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>WAM* (days)</b>	<b>Rate of Return</b>
Hampshire performance:				
- 31/03/2018	AA	8%	735	1.36%
- 30/09/2018	AA	9%	810	1.41%
Similar Local Authorities	AA-	48%	1,026	1.00%
All Local Authorities	AA-	66%	37	0.55%

\* Weighted average maturity

- 6.9. As part of the Investment Strategy the County Council agreed an amount targeted towards high yielding investments of £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, and an additional £10m has been committed but not called.
- 6.11. The County Council's £115m portfolio of externally managed pooled multi-asset, equity and property funds generated an average total return of 7.81%, comprising a 4.79% income return which is used to support services in year, and 3.03% 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 (NAV) 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. The County Council's intention is to hold them for at least the medium term.
- 6.13. MHCLG released a consultation on statutory overrides relating to the introduction of IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognises that the requirement in IFRS 9 for certain investments to be accounted for a fair value through profit and loss may introduce "more income statement volatility" which may impact on budget calculations. The consultation proposes a time-limited statutory override and has sought views whether it should be applied only to pooled property funds. The County Council has responded to the consultation which closed on 30 September. The County Council's response stated that the County Council agrees that there should be a statutory override, but that it should not be time limited, as the circumstances meaning an override is appropriate now will still

apply in April 2021 and beyond. The statutory override should apply to all pooled investment funds, as the County Council sees no reason for the Government to incentivise property funds over other pooled funds. Good treasury risk management requires long-term investments to be diversified over a range of asset classes, and the government should support this by extending the proposed override to all types of collective investment scheme.

## 7. Non Treasury Investments

- 7.1. The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the County Council holds primarily for financial return. This is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 7.2. Although not classed as treasury management activities the County 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 County Council’s normal approval processes for revenue and capital expenditure and need not comply with the treasury management strategy. The County Council’s existing non-treasury investments are listed in Table 6 below:

**Table 6: Non-Treasury Investments**

	<b>30/09/2018 Asset value £m</b>	<b>30/09/2018 Rate %</b>
Loans to Hampshire Based Business	9.5	4.00
<b>Total</b>	<b>9.5</b>	<b>4.00</b>

## 8. Compliance Report

- 8.1. The County Council confirms compliance of all treasury management activities undertaken during the period with the CIPFA Code of Practice and the County Council’s approved TMS. Compliance with specific investment limits, as well as the authorised limit and operational boundary for external debt, are demonstrated in Tables 7 and 8 below:

**Table 7: Debt Limits**

	<b>2018/19 Maximum £m</b>	<b>30/09/2018 Actual £m</b>	<b>2018/19 Operational Boundary £m</b>	<b>2018/19 Authorised Limit £m</b>	<b>Complied</b>
Borrowing	290	282	700	760	✓
Other Long-term Liabilities	164	164	170	210	✓
<b>Total Debt</b>	<b>454</b>	<b>446</b>	<b>870</b>	<b>970</b>	✓

**Table 8: Investment Limits**

	<b>2018/19 Maximum</b>	<b>30/09/2018 Actual</b>	<b>2018/19 Limit</b>	<b>Complied</b>
Any Single Organisation, except the UK Central Government	£30m	£30m	£70m	✓
Any Group of Organisations under the same ownership	£30m	£30m	£70m	✓
Any Group of Pooled Funds under the same management	£30m	£30m	£70m	✓
Registered Providers	£25m	£25m	£70m	✓
Money Market Funds	15%	2%	50%	✓

## **9. Treasury Management Indicators**

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

### **Interest Rate Exposures**

9.2. 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**

	<b>30/09/2018 Actual</b>	<b>2018/19 Limit</b>	<b>Complied</b>
Upper limit on fixed interest rate investment exposure	£119m	£375m	✓
Upper limit on variable interest rate investment exposure	£447m	£700m	✓
Upper limit on fixed interest rate borrowing exposure	£278m	£970m	✓
Upper limit on variable interest rate borrowing exposure	£3m	£970m	✓

- 9.3. 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**

- 9.4. 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**

	<b>30/09/2018 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 Months	0%	50%	0%	✓
12 Months and Within 24 Months	3%	50%	0%	✓
24 Months and Within 5 Years	11%	50%	0%	✓
5 Years and Within 10 Years	20%	75%	0%	✓
10 Years and Within 20 Years	55%	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**

- 9.5. 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**

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Actual principal invested beyond year end	£304m	£231m	£206m
Limit on principal invested beyond year end	£375m	£300m	£300m
Complied	✓	✓	✓

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

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	Yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	Yes
<b>People in Hampshire enjoy a rich and diverse environment:</b>	Yes
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	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:**

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

<b>Committee/Panel:</b>	Audit Committee
<b>Date:</b>	20 December 2018
<b>Title:</b>	Annual Audit Letter 2017-18
<b>Report From:</b>	External Auditors – Ernst and Young

**Contact name:** Martin Young (E&Y)

**Tel:** 02380 382220

**Email:** myoung1@uk.ey.com

#### 1. Recommendation

- 1.1 That the Audit Committee notes the annual audit letter as attached at Appendix 1.

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

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

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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:

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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:**

Not applicable.

### **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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# Hampshire County Council and Pension Fund

Annual Audit Letter for the year  
ended 31 March 2018

August 2018

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world

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Focused on  
your future



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - 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, you may take the issue up with your usual partner or director contact. 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. We can provide further information on how you may contact our professional institute.



01

# Executive Summary

# Executive Summary

We are required to issue an annual audit letter to Hampshire County Council (the Council) and Hampshire Pension Fund (the Pension Fund) following completion of our audit procedures for the year ended 31 March 2018.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council and Pension Fund's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2018 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

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## Executive Summary (continued)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 16 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 26 July 2018

We would like to take this opportunity to thank the Council and Pension Fund's staff for their assistance during the course of our work.



Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP



## 02 Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 26 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council and the Pension Fund.

## Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 16 July 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2017/18 financial statements, including the pension fund; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.

Reporting by exception:

- ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
- ▶ Any significant matters that are in the public interest;
- ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
- ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

# Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 26 July 2018.

Our detailed findings were reported to the 26 July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Work completed and Conclusion
<p>Misstatements due to fraud or error</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. We have concluded that the judgements we are focused on are items of non-routine income and expenditure, involving management estimation and judgement, rather than transactions created through routine invoicing processes.</p> <p>As this relates to how the Council recognises revenue and expenditure, we have addressed the risk through our procedures to address the risk of fraud in revenue and expenditure recognition.</p> <p>Our work on the risk of management override therefore focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records</p>	<p>We addressed the residual risk of management override through the following procedures:</p> <ul style="list-style-type: none"><li>• We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;</li><li>• We reviewed accounting estimates for evidence of management bias (as noted above relating to revenue and expenditure recognition); and</li><li>• We evaluated the business rationale for any significant unusual transactions.</li></ul> <p>Our testing did not identify any material weaknesses in controls or evidence of material management override.</p> <p>Our testing did not identify any instances of inappropriate judgements being applied.</p> <p>Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

# Financial Statement Audit (continued)

The key issues identified as part of our audit were as follows: (continued)

Significant Risk	Work completed and Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>The risk in local government resides in areas in which management judgements are made and transactions not subject to routine based system controls. As such we attach the risk of revenue recognition to the judgements made in recognising capital expenditure and the subsequent capital financing transactions.</p> <p>The risk is focused on significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit.</p> <p>We have identified the following unusual transactions which we consider to present a risk of revenue and expenditure recognition:</p> <ul style="list-style-type: none"> <li>• Minimum Revenue Provision (MRP);</li> <li>• Capital Financing Requirement (CFR);</li> <li>• Revenue and Expenditure Funded from Capital Under Statute (REFCUS); and</li> <li>• Property, Plant and Equipment (PPE) additions.</li> </ul>	<p>We:</p> <ul style="list-style-type: none"> <li>• Engaged with management to understand the overall financial position;</li> <li>• Examined data that supports significant additions and disposals during the period;</li> <li>• Reviewed the schedule of expenditure classified as Revenue Expenditure Funded by Capital Under Statute (REFCUS);</li> <li>• Ensured the calculation of the Capital Financing Requirement is compliant with the Code;</li> <li>• Ensured additions and disposals tested in PPE are internally consistent with the capital financing disclosure; and</li> <li>• Reviewed and discussed with management any accounting estimates on revenue recognition for evidence of bias.</li> </ul> <p>Our work did not identify any issues in relation to this risk.</p>



# Financial Statement Audit (continued)

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality for the Council to be £42.5m (2017: £41.1m), which is 2% of gross revenue expenditure reported in the accounts.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We determined planning materiality for the Pension Fund to be £132.2m (2017: £63.3m), which is 2% of net assets reported in the accounts.</p> <p>We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.1m (2017: £2m) for the Council, and £6.6m (2017: £3.2m) for the Pension Fund.</p>



# 04 Value for Money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



We did not identify any significant risks in relation to these criteria

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



05

## Other Reporting Issues



## Other Reporting Issues

### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 26 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Other Reporting Issues (continued)

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### Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.



# 06 Focused on your future



# Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured;</li> <li>• How the impairment of financial assets are calculated; and</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>• Reclassify existing financial instrument assets</li> <li>• Re-measure and recalculate potential impairments of those assets; and</li> <li>• Prepare additional disclosure notes for material items.</li> </ul>
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>• Leases;</li> <li>• Financial instruments;</li> <li>• Insurance contracts; and</li> <li>• For local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



## Focused on your future (continued)

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Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

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ED None

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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Audit Committee
<b>Date:</b>	20 December 2018
<b>Title:</b>	Minutes of the Hampshire Pension Fund Panel and Board Meeting – 22 June, 27 July and 28 September 2018
<b>Report From:</b>	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 22 June, 27 July and 28 September 2018 as attached at Appendix 1, 2 and 3.

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

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	yes
<b>People in Hampshire enjoy a rich and diverse environment:</b>	yes
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	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 at Mitchell Room, EII Podium,  
Winchester on Friday, 22nd June, 2018

## **PRESENT**

Chairman:

p Councillor Mark Kemp-Gee

Vice-Chairman:

p Councillor Tom Thacker

p Councillor Christopher Carter

p Councillor Alan Dowden

p Councillor Andrew Gibson

p Councillor Jonathan Glen

p Councillor Andrew Joy

p Councillor Peter Latham

p Councillor Bruce Tennent

### **Co-opted members**

p Dr Clifford Allen, Scheme Member Representative - Pensioner Member

p Valerie Arrowsmith, Scheme Member Representative - Deferred Member

a Councillor Mark Chaloner, Employer Representative - Southampton City Council

p David Robbins, Employer Representative - Other Employer

p Neil Wood, Scheme Member Representative - Active Member

p Carolan Dobson, Independent Adviser

a Councillor Hugh Mason, Employer Representative – Portsmouth City Council

### **82. APOLOGIES FOR ABSENCE**

Councillors Mason and Chaloner sent their apologies.

### **83. 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.

Carolan Dobson remind the committee she is a non-executive director of the London CIV and a number of other funds that she advises employ the same

investment managers as Hampshire. Neither issue inhibited her advice to the Hampshire Pension Fund

**84. CONFIRMATION OF MINUTES (NON-EXEMPT)**

The minutes of the Pension Fund Panel and Board held on 9 April 2018 were confirmed.

**85. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman announced that in advance of the meeting Cllr Giddings had notified him that he was resigning as the employer representative, representing district councils and expressed on behalf of the committee his thanks to Cllr Giddings for his valued contributions to the Pension Fund Panel and Board.

The Chairman invited members of the committee to volunteer to attend the Local Government Chronicle Pension Conference in September 2018.

Cllr Tennent updated the Panel and Board following his attendance at the Government Actuaries Department Data Roadshow. And Cllrs Tennent and Glen gave a summary of the training they had attended from one of the Pension Fund's investment managers, Western. Cllr Gibson provided feedback having attended an SPS conference on investing in infrastructure and real assets.

**86. REPORTING OF ACCESS JOINT COMMITTEE MINUTES (NON EXEMPT ITEMS) 12 MARCH 2018**

The Panel and Board received the minutes of the ACCESS Joint Governance Committee held on 12 March 2018.

**87. GOVERNANCE - ADMINISTRATION UPDATE**

The Panel and Board received a report of the Director of Corporate Resources (item 6 in the Minute Book) setting out the administrative performance from October 2017 to March 2018. The Panel and Board were pleased to note that Pension Services had continued to perform well in terms of the cost per member, auditors' opinions and meeting service standards. In addition the committee noted the very positive news that Pensions Services had retained their Customer Service Excellence accreditation following an external assessment in April 2018.

The Panel and Board noted that the performance of the Pension Fund's employers in their provision of information to Pension Services to meet their obligations as employers. The committee were pleased that employers had improved in terms of their provision of year end data and payments of contributions.

It was reported that one of the Pension Fund's two Additional Voluntary Contribution (AVC) providers, Prudential have recently introduced a new type of fund called dynamic growth funds. These are multi asset funds which offer diversification through active asset allocation in UK and global bond and equity

markets. Prudential offers five of these dynamic growth funds across the risk spectrum allowing members to diversify their investments through a single fund based on their risk tolerance and age profile. To keep the overall number of available funds at a reasonable level, it was recommended that the Panel approve three of the dynamic growth funds (the low, medium and high risk options) to be added to the Hampshire AVC portfolio and made available to scheme members.

Cllr Glen declared to the committee that he had a personal interest through a pension with Prudential and did not take part in this element of the discussion.

The Panel and Board were delighted to note that West Sussex County Council have taken a decision to move their pension administration service provision from Capita to Hampshire County Council with effect from March 2019. The same processes and service standards will be delivered for West Sussex as for Hampshire, ensuring efficient and effective administration is achieved for all members and employers. Pensions Services will ensure the appropriate staffing levels are in place to meet the increased workload and to maintain the existing agreed service standards in line with the administration strategy.

RESOLVED:

- a) That the addition of three funds to the Hampshire AVC portfolio with Prudential was approved.
- b) That the remainder of the report, including the good performance of Pensions Services in 2017/18 was noted.

## 88. **GOVERNANCE - RISK MANAGEMENT**

The Panel and Board received and noted a report of the Director of Corporate Resources (item 7 in the Minute Book) providing a summary of the Pension Fund's approach to risk management and the Fund's Risk Register for review by the Pension Fund Panel and Board.

The Panel and Board noted the Pension Fund's process for the identification and management of risk and the main activities undertaken by both the Panel and Board and officers to mitigate the risks identified. The report provided an overview of the Fund's risk management activities in the past year, including reviewing the Fund's investment strategy and amendments to the Funding Strategy to reflect the risk of employers in the Fund being unable to meet their liabilities.

## 89. **INVESTMENTS: PENSION FUND CASH - ANNUAL REPORT 2017/18**

The Panel considered a report of the Director of Corporate Resources (Item 8 in the Minute Book) which summarised the activities of officers in managing the Pension Fund's cash balance during 2017/18. The Panel had agreed an Annual Investment Strategy earlier in the year and the cash balance had been managed in accordance with that Strategy throughout the year. The average cash balance in 2017/18 was £74m, which included cash being held whilst the Fund's

property, private equity and infrastructure investment managers find suitable investment opportunities.

Following the publication of the Pension Fund's draft statement of accounts, the Director also reported to the Panel and Board in 2017/18 the Pension Fund had improved its cashflow positive position from its dealings with members, with a surplus of £42m.

RESOLVED:

That the outturn report on the Pension Fund's cash management in 2017/18 was approved.

**90. 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.

**91. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING**

The exempt minutes of the Pension Fund Panel and Board held on 9 April 2018 were confirmed.

**92. REPORTING OF EXEMPT MINUTES OF THE ACCESS JOINT COMMITTEE MEETING - 12 MARCH 2018**

The Panel and Board received the exempt minutes of the ACCESS Joint Governance Committee held on 12 March 2018.

**93. INVESTMENTS - CASH OUT-TURN - (EXEMPT APPENDIX)**

The Panel and Board noted the exempt appendix from the Director of Corporate Resources (Item 12 in the Minute Book) detailing the Fund's cash investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

**94. INVESTMENTS: ACCESS BUSINESS PLAN AND FIRST SUB-FUND**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 13 in the Minute Book) updating the Panel and Board on the progress of investment pooling. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]



95. **INVESTMENT - INVESTMENT UPDATE**

The Panel and Board considered the exempt report from the Director of Corporate Resources (Item 14 in the Minute Book) updating the Panel and Board about the progress of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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Chairman,

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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Mitchell Room, EII Podium, Winchester on Friday, 27th July, 2018

## **PRESENT**

Chairman:

\* Councillor Mark Kemp-Gee

Vice-Chairman:

\* Councillor Tom Thacker

\* Councillor Christopher Carter  
\* Councillor Alan Dowden  
\* Councillor Andrew Gibson  
\* Councillor Jonathan Glen

\* Councillor Andrew Joy  
\* Councillor Peter Latham  
\* Councillor Bruce Tennent

\*Present

### **Co-opted members**

\* Dr Clifford Allen, Scheme Member Representative - Pensioner Member  
\* Valerie Arrowsmith, Scheme Member Representative - Deferred Member  
\* Councillor Mark Chaloner, Employer Representative - Southampton City Council  
\* David Robbins, Employer Representative - Other Employer  
\* Neil Wood, Scheme Member Representative - Active Member  
  
\* Carolan Dobson, Independent Adviser

## **96. APOLOGIES FOR ABSENCE**

Cllr Chaloner sent his apologies.

## **97. 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.

98. **CONFIRMATION OF MINUTES (NON-EXEMPT)**

The minutes of the Pension Fund Panel and Board held on 22 June 2018 were confirmed.

99. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Sarah Manchester who had been appointed as the Substitute Scheme Member Representative and invited her to attend the meeting.

The Chairman announced Cllrs Cartwright and Smith would be joining the Panel and Board. Cllr Cartwright was appointed by the Hampshire and Isle of Wight Local Authorities (HIOWLA) as the employer representative for District Councils. Cllr Smith was nominated by Portsmouth City Council as the employer representative for Unitary Councils, and representation on the Panel and Board switched from Southampton to Portsmouth for the 2018/19 municipal year. All three new representative will be proposed to the County Council for their approval as co-opted members in September 2018.

The Chairman reminded members that there will be an internal training session on 2 August 2018.

The Chairman confirm that Cllr Dowden and Mr Wood would be joining him at the LCG summit in September 2018.

Mrs Arrowsmith gave an update to the committee having attended the SPS on Investment Strategies and Cashflow Management.

100. **REPORTING OF ACCESS JOINT COMMITTEE MINUTES (NON EXEMPT ITEMS) 26 APRIL 2018**

The Panel and Board received the minutes of the ACCESS Joint Governance Committee held on 26 April 2018.

101. **GOVERNANCE - ANNUAL INTERNAL AUDIT REPORT AND OPINION 2017/18**

The Panel considered a report of the Director of Corporate Resources (item 6 in the Minute Book) providing the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of internal control of the Pension Fund. The Chief Internal Auditor's opinion was that the Pension Fund's governance, risk management and framework of control is 'Substantial'.

RESOLVED:

That the Chief Internal Auditor's annual report and opinion statement for 2017/18 was accepted.

**102. GOVERNANCE - PENSION FUND ANNUAL REPORT**

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 7 in the Minute Book) containing the Pension Fund's Draft Annual Report, including the Pension Fund's Accounts for the year ending 31 March 2018. The accounts were produced by the new statutory deadline of 31 May 2018 and the external audit has been completed in advance of the new deadline of 31 July 2018.

RESOLVED:

That the Annual Report for 2017/18 be approved for publication, and that the Director of Corporate Resources be authorised to make any necessary minor amendments prior to publication.

**103. 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 and 5 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.

**104. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING**

The exempt minutes of the Pension Fund Panel and Board held on 22 June 2018 were confirmed.

**105. INVESTMENT - INVESTMENT UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 10 in the Minute Book) updating the Panel and Board on the Fund's investments [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

**106. INVESTMENTS - PROPERTY PORTFOLIO UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 11 in the Minute Book) updating the Panel and Board on the Fund's property portfolios. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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Chairman,



AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Mitchell Room, EII Podium, Winchester on Friday, 28th September, 2018

## **PRESENT**

Chairman:  
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

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

Employer Representatives (Co-opted members):

a Councillor M. Chaloner (Southampton City Council)  
a Councillor J. Smith (Portsmouth City Council)  
a Councillor T. Cartwright (Fareham Borough Council)  
p Mr D. Robbins (Churchers College)

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)  
p Mrs S. Manchester (substitute scheme member 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.

### **107. APOLOGIES FOR ABSENCE**

Cllrs Joy, Tennent, Smith, Cartwright and Chaloner sent their apologies.

### **108. 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.

**109. CONFIRMATION OF MINUTES (NON-EXEMPT)**

The minutes of the Pension Fund Panel and Board held on 27 July 2018 were confirmed.

**110. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman announced to the committee that Jennifer Devine had left the County Council after over nine years as an officer working for the Pension Fund and the members thanked her for her support to them and contribution to the Pension Fund.

The Chairman, Cllr Dowden and Mr Wood summarised the main themes that they took from attending the Local Government Chronicle Investment Summit, which included investment in social housing, managing Environmental, Social and Governance investment issues, and an update from the pools.

**111. GOVERNANCE - FUNDING STRATEGY STATEMENT - AMENDMENT**

The Panel considered a report of the Director of Corporate Resources (item 5 in the Minute Book) on the changes to the Funding Strategy Statement (FSS) and Employer Policy in relation to the payment of exit credits following changes to the LGPS (Amendment) Regulations 2018 which were made in May 2018. The regulations now permit the payment of an exit credit to an exiting employer if the exit valuation showed a surplus of assets over liabilities.

Amendments to the FSS and Employer Policy have been drafted for consultation with the Fund's employers that permit the Fund will pay the exit credit to the exiting employer in most circumstances, regardless of any side agreement which may be in place between the exiting employer and its guarantor. The proposed policy changes allow for a surplus on exit to be retained in the Fund where this is an explicit part of a subsumption agreement from a continuing employer.

RESOLVED:

- (a) That the changes to the Funding Strategy Statement and Employer Policy were approved for consultation.

**112. GOVERNANCE - PENSION FUND MANAGEMENT COSTS**

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 6 in the Minute Book) on the costs of managing the Pension



Fund in the financial year 2017/18. Costs were disclosed according to the three categories specified in CIPFA's guidance on Pension Fund Accounts; investment management costs, administration expenses and oversight and governance costs.

The Panel and Board noted that while the cost of managing the Pension Fund was significant, it was low in comparison to the overall size of the Pension Fund and in line with Hampshire's position as one of the largest LGPS funds. It was highlighted that investment management costs had increased in percentage terms, due to the growth of the Pension Fund's commitments to private equity and increases in the expenses of its direct property portfolio.

**113. 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 and 5 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.

**114. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING**

The exempt minutes of the Pension Fund Panel and Board held on 27 July 2018 were confirmed.

**115. GOVERNANCE - PENSION FUND MANAGEMENT COSTS - EXEMPT**

The Panel and Board noted the exempt appendix from the Director of Corporate Resources (Item 9) in the Minute Book) detailing the Fund's investment management costs. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

**116. INVESTMENT - INVESTMENT UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 10 in the Minute Book) updating the Panel and Board on the Fund's investments [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

**117. INVESTMENTS - ALTERNATIVE INVESTMENTS UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 11 in the Minute Book) updating the Panel and Board on the Fund's alternative investment portfolios. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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Chairman,

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
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