

Public Document Pack



NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Thursday, 23rd May, 2019 at 2.00 pm
Place	Chute Room, EII South, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

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

FILMING AND BROADCAST NOTIFICATION

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

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to 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 Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 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 HELD ON 21 FEBRUARY 2019 (Pages 5 - 8)

To confirm the minutes of the previous meeting.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

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

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

7. ANNUAL TREASURY OUTTURN REPORT 2018/19 (Pages 15 - 28)

To consider a report of the Director of Corporate Resources – Corporate Services giving details on treasury activity during 2018/19.

8. RELATED PARTY DISCLOSURE 2018/19 - UPDATE (Pages 29 - 34)

To consider a report of the Director of Corporate Resources presenting the current position regarding the 2018/19 related party declaration returns.

9. HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND AUDIT PROGRESS REPORT FOR YEAR ENDING 31 MARCH 2019 (Pages 35 - 46)

To receive the external auditors report for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2019.

10. HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND FEE LETTER 2019/20 (Pages 47 - 60)

To receive a letter from the external auditors presenting the fee for the annual audit, for both Hampshire County Council and the Hampshire Pension Fund, for 2019/20.

11. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 14 DECEMBER 2018 AND 15 FEBRUARY 2019 (LESS EXEMPT) (Pages 61 - 72)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 14 December 2018 and 15 February 2019.

12. 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.

13. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 14 DECEMBER 2018 AND 15 FEBRUARY 2019 (EXEMPT) (Pages 73 - 82)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 14 December 2018 and 15 February 2019.

ABOUT THIS AGENDA:

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

ABOUT THIS MEETING:

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

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

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Public Document Pack Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at The Castle, Winchester on Thursday, 21st February, 2019:

Chairman:

p. Councillor Keith Evans

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

p. Councillor Lance Quantrill
p. Councillor Tom Thacker
p. Councillor Zilliah Brooks

96. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillor Kemp-Gee. Councillor Brooks was in attendance as the deputy member.

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. **MINUTES OF PREVIOUS MEETING HELD ON 20 DECEMBER 2018**

The minutes of the meeting held on 20 December 2018 were agreed as a correct record and signed by the Chairman.

With regards to Minute Number 92, the Chairman informed Members that he had received a communication from the Director of Corporate Resources – Corporate Services to confirm the recent agreement to raise the existing £200million investment level to £235million.

99. **DEPUTATIONS**

There were no deputations.

100. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

101. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS

The Committee considered the report of the Director of Transformation and Governance regarding the County Council's use of regulated investigatory powers.

RESOLVED:

That the Audit Committee receives and notes the data regarding the County Council's use of surveillance powers as attached at Appendix 1 to the report.

102. TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20 TO 2020/21

The Committee received the report of the Director of Corporate Resources – Corporate Services with the Treasury Management Strategy Statement 2019/20 to 2021/22.

In response to Members' questions, it was confirmed that:

- There is no formula that calculates the level of reserves required based on the investment balance. It had been deemed prudent to raise the value of the Risk Reserve (as outlined in Recommendation iii below) as the total value of investment had risen.
- The County Council benchmarks its treasury management via its independent treasury advisor – Arlingclose, who provide benchmarking data from their universe of clients. It was confirmed that the County Council is performing well in relation to other Local Government organisations.

RESOLVED:

That the Audit Committee notes the following recommendations that have been made to Cabinet:

- i. That the Treasury Management Strategy, including the Annual Investment Strategy for 2019/20 (and the remainder of 2018/19) is approved.
- ii. That authority is delegated to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
- iii. That a further £1m is added to the Investment Risk Reserve as protection against the irrecoverable fall in value of any investments.

103. HAMPSHIRE COUNTY COUNCIL AUDIT PLANNING REPORT 2018/19

In relation to this item, Councillor House declared a non-pecuniary interest as a Board member of the Public Sector Audit Appointments (PSAA) who appoint Ernst and Young as a principal body audit firm.

The Committee received the annual audit planning report for 2018/19 from the external auditors.

Members were reassured that the 'new risk identified' on page 46 of the pack related to a revised approach to accounting standards and that, once the new standards had been implemented throughout the year, the risk level would be reassessed.

RESOLVED:

That the Audit Committee receives and notes the Hampshire County Council Audit Planning Report for 2018/19 as attached at Appendix 1.

104. HAMPSHIRE PENSION FUND AUDIT PLANNING REPORT 2018/19

In relation to this item, Councillor House declared a non-pecuniary interest as a Board member of the Public Sector Audit Appointments (PSAA) who appoint Ernst and Young as a principal body audit firm.

The Committee received the annual audit planning report for 2018/19 from the external auditors.

RESOLVED:

That the Audit Committee receives and notes the Hampshire Pension Fund Audit Planning Report for 2018/19 as attached at Appendix 1.

105. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 15 NOVEMBER 2018 (LESS EXEMPT)

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 15 November 2018.

106. 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, for the reasons set out in the minutes.

107. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 15 NOVEMBER 2018 (EXEMPT)

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 15 November 2018.

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	23 May 2019
Title:	Information Compliance – Use of Regulated Investigatory Powers
Report From:	Director of Transformation and Governance – Corporate Services

Contact name: Peter Andrews

Tel: 01962 847309

Email: Peter.andrews@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the data regarding the County Council's use of regulated investigatory powers.

Recommendation

2. That the Audit Committee receives and notes the data regarding the County Council's use of surveillance powers as attached.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no

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
None

Location

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

This report requests that the Audit Committee receive and note the data and therefore the recommended action will not impact on groups with protected characteristics in any way.

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

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	23 May 2019
Title:	Annual Treasury Outturn Report 2018/19
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Rob Sarfas

Tel: 01962 847054

Email: rob.sarfas@hants.gov.uk

Purpose of the report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report.

Recommendation

2. The Audit Committee are asked to note the following recommendations being reported to Cabinet and Full Council:
3. That the outturn review of treasury management activities be noted.

Executive Summary

4. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
5. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2019. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's treasury management strategy.

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.”
7. This annual report sets out the performance of the treasury management function during 2018/19, to include the effects of the decisions taken and the transactions executed in the past year.
8. Overall responsibility for treasury management remains with the County Council. No treasury management activity is without risk and the effective identification and management of risk are integral to the County Council’s treasury management objectives.
9. All treasury activity has complied with the County Council’s Treasury Management Strategy and Investment Strategy for 2018/19, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council’s treasury advisers, Arlingclose. The County Council has also complied with all the prudential indicators set in its Treasury Management Strategy.
10. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The County Council’s Capital and Investment Strategy, complying with CIPFA’s requirement, was approved by full Council on 14 February 2019.

External Context

11. The following sections outline the current key economic themes against which investment and borrowing decisions were made in 2018/19:

Economic commentary

12. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England’s February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

13. After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.
14. While the domestic focus has been on Brexit's potential impact on the UK economy, which has weighed on sterling and UK markets, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets

15. Markets for riskier asset classes fell in December 2018, most notably for equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.
16. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Credit background

17. Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.
18. The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds,

HSBC and RBS/NatWest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

19. In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.
20. There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Local Context

21. At 31 March 2019, the County Council's underlying need to borrow for capital purposes was £780.9m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £589.5m (principal invested plus gains on investments with a variable net asset value). These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary	31/3/18 Balance £m	Movement £m	31/03/19 Balance £m
CFR	(764.0)	(16.9)	(780.9)
Less: Other debt liabilities*	164.2	(7.2)	157.0
Borrowing CFR	(599.8)	(24.1)	(623.9)
Less: resources for investment	570.7	18.8	589.5
Net borrowing	(29.1)	(5.3)	(34.4)

* PFI liabilities that form part of the County Council's total debt

22. The CFR increased by £24.1m during 2018/19 as a result of the County Council's capital programme, however this increase was largely offset by an increase in cash balances of £18.8m, resulting in an increase in net borrowing of £5.3m.
23. The County Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary	31/3/18 Balance £m	Movement £m	31/3/19 Balance £m	31/3/19 Rate %
Long-term borrowing	(280.0)	8.7	(271.3)	4.6
Short-term borrowing	(7.8)	(1.3)	(9.1)	4.2
Total borrowing	(287.8)	7.4	(280.4)	4.6
Long-term investments	289.3	53.0	342.3	3.3
Short-term investments	240.5	(56.5)	184.0	1.2
Cash and cash equivalents	32.4	23.9	56.3	0.8
Total investments	562.2	20.4	582.6	2.4
Net investments	274.4	27.8	302.2	

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

24. The County Council's internal borrowing policy is the reason for the large variance between the positions shown in Tables 1 and 2. The movement that has taken place during 2018/19 in net borrowing shown in Table 1 has translated into a rise in investment balances as shown in Table 2.

Borrowing Activity

25. At 31 March 2019 the County Council held £280.4m of loans (a decrease of £7.4m from 31 March 2018) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3 below.

Table 3: Borrowing Position	31/3/18 Balance £m	Net Movement £m	31/3/19 Balance £m	31/3/19 Weighted Average Rate %	31/3/19 Weighted Average Maturity (years)
Public Works Loan Board	243.4	(7.8)	235.6	4.70	11.9
Banks (LOBO)	20.0	0.0	20.0	4.76	14.3
Other (fixed term)	24.4	0.4	24.8	3.46	16.4
Total borrowing	287.8	(7.4)	280.4	4.60	12.5

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

26. 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. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
27. Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.
28. With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years, when long-term borrowing costs may be higher.
29. As a result, new borrowing was kept to a minimum during 2018/19 (£0.4m) and was taken out to fund energy efficiency initiatives. These Salix loans will incur no interest whilst also enabling the County Council to make future cost savings against revenue energy budgets.
30. £7.8m of existing PWLB 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.
31. The County Council continues to hold £20.0m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year.

Treasury Investment Activity

32. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £562m and £672m due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury Investment Position	31/03/2018 Balance £m	Net Movement £m	31/03/2019 Balance £m	31/3/19 Income Return %	31/3/19 Weighted Average Maturity years
Short term investments					
- Banks and Building Societies:					
- Unsecured	11.7	18.7	30.4	0.93	0.28
- Secured	55.0	(40.0)	15.0	1.34	0.31
- Money Market Funds	25.7	29.6	55.3	0.79	0.00
- Local Authorities	160.5	(36.0)	124.5	1.12	0.41
- Corporate Bonds	-	-	-	-	-
- Registered Provider	20.0	(15.0)	5.0	3.40	0.08
- Cash Plus funds	-	10.0	10.0	1.50	n/a
Total	272.9	(32.7)	240.2	1.10	0.27
Long term investments					
- Banks and Building Societies:					
- Secured	78.3	(5.0)	73.3	1.31	2.16
- Local Authorities	61.0	17.0	78.0	1.36	2.23
Total	139.3	12.0	151.3	1.33	2.20
Long term investments – high yielding strategy					
- Local Authorities					
- Fixed deposits	20.0	-	20.0	3.96	14.97
- Fixed bonds	10.0	-	10.0	4.20	14.77
- Pooled Funds					
- Pooled property**	55.0	12.0	67.0	4.35	n/a
- Pooled equity**	40.0	12.0	52.0	5.78	n/a
- Pooled multi-asset**	20.0	22.0	42.0	5.38	n/a
- Registered provider	5.0	(5.0)	0.0	-	-
Total	150.0	41.0	191.0	4.92	14.91
Total investments	562.2	20.3	582.5	2.41	2.00

** The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 31 March 2019.

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.

33. The CIPFA Code and government guidance both 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 therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income.
34. Security of capital has remained the County Council's main investment objective and has been maintained by following the County Council's counterparty policy as set out in the Treasury Management Strategy Statement.
35. Counterparty credit quality has been assessed and monitored with reference to credit ratings, the analysis of funding structures and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
36. The County Council also makes use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
37. To reduce risk, approximately 79% of the County Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, registered providers, secured bank bonds, and pooled property, equity and multi-asset funds. The remaining balance is largely held in overnight money market funds and cash plus funds, which are subject to reduced bail in risk. By comparison, only 55% of the cash held by other similar Local Authorities is not subject to bail-in risk.
38. To ensure sufficient liquidity, the County Council has made use of call accounts and money market funds. With the uncertainty around Brexit, the Council also ensured there were enough accounts open at UK domiciled banks and Money Market Funds to hold sufficient liquidity over the year end and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.
39. The UK Bank Rate increased marginally by 0.25% in August 2018 to 0.75% and with short-term money market rates also remaining relatively low, there has been an ongoing impact on the Council's ability to generate income on cash investments. The rate of return achieved on the County Council's internally managed funds was 1.35% in the year to 31 March 2019, broadly

the same as for the previous year.

40. The progression of risk and return metrics for the County Council's investments that are managed in-house (excluding external pooled funds) are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking (excluding pooled funds)	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2018	AA	8%	735	1.36%
31.03.2019	AA	21%	758	1.35%
Similar LAs	AA-	55%	692	1.02%
All LAs	AA-	55%	29	0.85%

41. As part of the 2017/18 Investment Strategy the total amount targeted towards higher yielding investments was increased to £200m, further increased to £235m as part of the Treasury Management Strategy Statement agreed in February 2019. Of the £235m available, £191m had been invested at 31 March 2019, an increase of £41m since 31 March 2018.
42. The £171m portfolio of externally managed funds generated an average total return of 5.92% in the year to 31 March 2019, comprising 4.78% income return, which is used to support services in year, and 1.14% of capital growth.
43. The high yielding strategy overall generated an average income return of 4.92% (£8.0m), contributing to an average return for the investment portfolio in aggregate of 2.09% at 31 March 2019. By comparison, the average income return for all other investments was 1.03% (£4.9m).
44. £161m of the externally managed portfolio is invested in strategic multi-asset, equity and property funds which are more volatile in the short-term but which generate regular revenue income alongside providing diversification and the potential for enhanced returns over the longer term.
45. Although money can usually be redeemed from these pooled funds at short notice, the County Council's intention is to hold them for at least the medium-term. Investments are made in the knowledge that capital values will move both up and down in the short term, but with the confidence that over a three- to five- year period total returns should exceed cash interest rates. The performance and ongoing suitability of these pooled funds in meeting the County Council's investment objectives is monitored regularly and discussed with Arlingclose.

Financial Implications

46. The outturn for debt interest paid in 2018/19 was £13.6m against a budgeted £13.8m on an average debt portfolio of £284.2m.
47. The outturn for investment income received in 2018/19 was £12.9m on an average investment portfolio of £618m, giving a yield of 2.09%. By comparison, investment income received in 2017/18 was £11.2m on an average portfolio of £602m with a yield of 1.86%.

Non-Treasury Investments

48. 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 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.
49. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.
50. The County Council's existing non-treasury investments are listed in Table 6 below.

Table 6 – Non-Treasury Investments	31/03/19 Asset value £m	31/03/19 Rate %
Loans to Hampshire based business	4.5	4.00
Total	4.5	4.00

51. These investments generated £0.135m of investment income for the County Council in 2018/19.

Compliance Report

52. The County Council confirms compliance of all treasury management activities undertaken during 2018/19 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.
53. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 7 below.

Table 7 – Debt Limits	2018/19 Maximum	31/03/19 Actual	2018/19 Operational Boundary	2018/19 Authorised Limit	Complied?
Borrowing	288	281	650	700	✓
PFI and Finance Leases	164	157	170	210	✓
Total debt	452	438	820	910	✓

Treasury Management Indicators

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

Interest Rate Exposures

55. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates.

Table 8 – Interest Rate Exposures	31/03/19 Actual	Impact of +/-1% interest rate change
Variable interest rate investment exposure	£311m	+/- £3.1m
Variable interest rate borrowing exposure	£23m	+/- £0.2m

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

56. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 9 – Maturity Structure of Borrowing	31/03/19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3.3%	50%	0%	✓
12 months and within 24 months	4.8%	50%	0%	✓
24 months and within 5 years	8.8%	50%	0%	✓
5 years and within 10 years	18.9%	75%	0%	✓
10 years and within 20 years	53.5%	75%	0%	✓
20 years and within 30 years	10.7%	75%	0%	✓
30 years and above	0.0%	100%	0%	✓

57. The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as 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. If not repaid before maturity, these loans have an average maturity date of 14 years (minimum 8 years; maximum 26 years).

Principal Sums Invested for Periods Longer than 364 days

58. 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 long-term principal sum invested to final maturities beyond the period end were:

Table 10 – Principal Sums Invested Beyond Year End	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£342m	£264m	£236m
Limit on principal invested beyond year end	£375m	£410m	£350m
Complied?	✓	✓	✓

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because it relates to the effective management of the County Council's cash balances.

Other Significant Links

Links to previous Member decisions:

<u>Title</u>	<u>Date</u>
Treasury Management Strategy Statement (as presented to the Audit Committee)	21 February 2019

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	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

Equalities objectives are not expected to be adversely impacted by the proposals in this report.

HAMPSHIRE COUNTY COUNCIL

Report

Decision Maker:	Audit Committee
Date:	23 May 2019
Title:	Related Party Disclosure 2018/19 - Update
Report From:	Director of Corporate Resources

Contact name: Anne Hibbert – Corporate Accounting Manager

Tel: 01962 847533

Email: anne.hibbert@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to identify County Councillors who have not returned a declaration regarding any related party transactions for the financial year 2018/19. If any declarations remain outstanding on 31 May 2019, being the statutory deadline for publishing the draft Statement of Accounts, it is recommended that the Audit Committee refer the relevant Councillors to the Conduct Advisory Panel for a breach in compliance with County Council procedures.

Recommendations

2. That for the County Councillors who, as at 31 May 2019 have not returned their 2018/19 related party declaration to the Deputy Chief Executive and Director of Corporate Resources, those Councillors will be referred to the Conduct Advisory Panel for a breach in compliance with County Council procedures.

Executive Summary

3. In accordance with the Code of Practice for Local Authority Accounts, the County Council's statement of accounts includes information about its related parties and any transactions between those parties. A related party is an entity or person who is related to the reporting authority and who has control and/or significant influence over the authority. For the County Council, this includes:
 - County Councillors
 - Chief Officers.
 - Members of the close family of, or same household as, a County Councillor or Chief Officer.
 - Partnership, companies, trusts or other bodies in which the County Councillor, Member or Chief Officer, member of their close family or same household, has a controlling interest, or where their influence amounts to control.

4. Each year, the Deputy Chief Executive and Director of Corporate Resources requests a declaration from each related party. This request is in addition to the registration of pecuniary and personal interests and specifically requires a declaration regarding related party transactions in the financial year. This report provides an update on the position relating to the financial year 2018/19.

Contextual information

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

Approach and position for 2018/19

7. Declarations are required retrospectively in relation to the full financial year. In order to meet the statutory deadline for publishing the accounts, no later than 31 May, requests for declarations were sent on 14 March 2019 with a return date of no later than 5 April 2018. The text of the request was clear and the declaration required was returnable by email.
8. As at 6 April, 11 declarations were outstanding. Consequently, individual reminders were sent on 12 April and the Group Leaders were emailed on 26 April stating the final deadline of 30 April. As at 3 May, 5 declarations were outstanding and the Chairman of the Audit Committee emailed these councillors, copying the respective Group Leaders requesting replies by 10 May at the very latest.
9. As at 13 May 2019, 3 declarations remain outstanding from:
 - Councillor F Birkett
 - Councillor C Choudhary
 - Councillor R Dibbs
10. The Audit Committee is recommended to inform these Councillors that if replies are not received by 31 May 2019, when the Chief Financial Officer must approve and publish the draft statement of accounts for the County Council, they will be referred

to the Conduct Advisory Panel for a breach in compliance with County Council procedures.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:
It relates to the effective Governance of the County Council.

Section 100 D - Local Government Act 1972 - background documents

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

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

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);

Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;

Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;

Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;

Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

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

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	23 May 2019
Title:	Hampshire County Council and Hampshire Pension Fund Audit Progress Report for year ending 31 March 2019
Report From:	External Auditors – Ernst and Young

Contact name: Sarah Croft

Tel: 01962 111111

Email: scroft@uk.ey.com

Purpose of this Report

1. The purpose of this report is to provide an audit progress report for Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2019.

Recommendation

2. That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund Audit Progress Report for year ending 31 March 2019 as attached at Appendix 1.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no

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

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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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- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.


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

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

2. Equalities Impact Assessment:

The recommended action will not impact on groups with protected characteristics in any way.

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Hampshire County
Council
and
Hampshire Pension
Fund
Year ended 31 March 2019
Audit progress report



Private and Confidential
Audit Committee
Hampshire County Council and Hampshire Pension Fund
The Castle
Winchester
Hampshire
SO23 8UJ

April 2019

Dear Audit Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of our progress against our 2018/19 audit plan, reported to you in January 2019. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley
For and on behalf of Ernst & Young LLP
Enc

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01 Progress Update

02 Areas to highlight



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Hampshire County Council and Hampshire Pension Fund. in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hampshire County Council and Hampshire Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hampshire County Council and Hampshire Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01 Progress Update



Progress on 2018/19 Audit – Hampshire County Council

The following 'dashboard' summarises the progress of the 2018/19 audit after our interim audit visit. It seeks to provide the Audit and Risk Assurance Committee with an overview of the progress of the audit to date, and any issues arising.

Audit Area	Status	Details
Walkthroughs of key systems	Completed	<ul style="list-style-type: none"> - Accounts Payable - Accounts Receivable - Cash & Bank - Financial Statement Close Process - Payroll - Property, Plant & Equipment - Treasury Management - CONTROL - SWIFT
Testing of controls over key systems	In progress	<p>Our testing of controls in the following areas is ongoing:</p> <ul style="list-style-type: none"> - Accounts Payable - Accounts Receivable <p>Progress to date has not identified any control deficiencies.</p>
Testing of controls over key systems	Completed	<p>Our testing of controls over the following key system has been completed with no control deficiencies noted:</p> <ul style="list-style-type: none"> - Cash & Bank - CONFIRM - SWIFT
Interim testing of Property, Plant & Equipment -	In progress	<p>We have completed testing on the following areas and note no issues:</p> <ul style="list-style-type: none"> - Depreciation - Additions - Disposals - Existence <p>We have also started work on PPE Valuation which is ongoing but good progress has been made.</p>
Interim testing of payroll	Completed	<ul style="list-style-type: none"> - We have completed period 1-9 testing on payroll, and have noted no issues
Interim testing of income and expenditure	Completed	<ul style="list-style-type: none"> - We have completed period 1-9 testing on income and expenditure and have noted no issues
Other procedures	Completed	<p>We have completed interim testing on the following procedures and have encountered no issues -</p> <ul style="list-style-type: none"> - Related Party Transactions - Contract Review

Progress on 2018/19 Audit – Hampshire Pension Fund

The following 'dashboard' summarises the progress of the 2018/19 audit after our interim audit visit. It seeks to provide the Audit and Risk Assurance Committee with an overview of the progress of the audit to date, and any issues arising.

Audit Area	Status	Details
Walkthroughs of key systems	Completed	<ul style="list-style-type: none"> - Benefits payable - Cash & bank - Contributions receivable - Investments
Other procedures	Completed	<p>We have completed interim testing on the following procedures and have encountered no issues –</p> <ul style="list-style-type: none"> - Journal entry testing - Contract Review



02

Areas to highlight





Areas to highlight

Issue	Points to note
Pension Fund – members contributions information	<p>We requested members contributions & IAS19 membership info for the pension fund, along with members contributions for the police pension and firefighter pension, however due to the key contact being on maternity leave and HPF becoming the new pension administrator partner for West Sussex County Council Pension Fund on 01 March 2019, the team were unable to provide this.</p> <p>Whilst we were able to re-prioritize tasks and pull other tasks forward, we have emphasised to management the need to provide this information as soon as possible, and no later than the start of the year end site visit.</p>
IFRS 9 – classification of puttable instruments	<p>Discussions are ongoing in regards to the classification of puttable instruments under IFRS 9. We understand an election is being proposed to treat puttable instruments (pooled funds) as equity because the issuer can suspend redemption. However from our review of the code and conversation with our experts, suspension would need to be permanent and not temporary.</p> <p>We are awaiting copies of the contracts for these pooled funds so we can determine if redemption can be suspended permanently or just deferred temporarily.</p>

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	23 May 2019
Title:	Hampshire County Council and Hampshire Pension Fund Fee Letter 2019/20
Report From:	External Auditors – Ernst and Young

Contact name: Sarah Croft

Tel: 01962 111111

Email: scroft@uk.ey.com

Purpose of this Report

1. The purpose of this report is to receive the proposed audit fees for the 2019/20 financial year for Hampshire County Council and the Hampshire Pension Fund.

Recommendation

2. That the Audit Committee receives and notes:
 - 1.1. The Hampshire County Council and Hampshire Pension Fund Fee Letter 2018/19 as attached at Appendix 1
 - 1.2. The supporting information as attached at Appendix 2.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no

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

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

2. Equalities Impact Assessment:

The recommended action will not impact on groups with protected characteristics in any way.

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

15 May 2019

Ref: Fee Letter/19-20

Direct line: 01189 28 1667

Email: MGrindley@uk.ey.com

Dear John

Annual Audit 2019/20

We are writing to confirm the audit that we propose to undertake for the 2019/20 financial year Hampshire County Council and the Pension Fund.

From 2018/19, local government and police bodies have been responsible for making their own arrangements for the audit of the accounts and reporting on the housing benefit subsidy claim.

The Secretary of State for Housing, Communities and Local Government has specified Public Sector Audit Appointments (PSAA) as an appointing person under provisions of the Local Audit and Accountability Act 2014. PSAA has appointed auditors for bodies that opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23.

Indicative audit fee

For the 2019/20 financial year, PSAA has set the scale fee for each opted in body. Following consultation on its Work Programme and Scale of Fees, PSAA has maintained scale audit fees at the same level as for 2018/19, unless there are specific circumstances which require otherwise.

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

The audit fee covers the:

- Audit of the financial statements;
- Value for money conclusion; and
- Whole of Government accounts.
- Our final fee will include the impact of additional risks and/or circumstances that are out of the scope of the scale fee however at this stage, the indicative fee is set at the scale fee.

This indicative fee is based on certain assumptions, including:

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

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

As we have not yet completed our audit for 2018/19, our audit planning process for 2019/20 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Summary of fees

	Indicative fee 2019/20 £	Planned fee 2018/19 £	Actual fee 2017/18 £
Total Code audit fee for HCC	89,720	89,720	116,519
Total Code audit fee for Pension Fund	24,442	24,442	31,743

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

Billing

The scale fee will be billed in 1 instalment, billed in September 2019

Audit plan

Our plans for Hampshire County Council and the Pension Fund are expected to be issued in December 2019. These will communicate any significant financial statement and value for money risks identified, planned audit procedures to respond to those risks and the estimated fee implications of these additional procedures. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Corporate Resources and communicate the revised fee and the matters giving rise to any adjustments to the scale fee in our Audit Results Report which we will present to the Audit Committee.

For a high level overview of our approach and further information on how we intend to work with you under the PSAA contract, please refer to our leaflet 'EY working with you' which is enclosed.

We remain committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me, or Janet Dawson as our Government and Public Sector Assurance Leader at jdawson1@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, by writing to him at 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

Maria Grindley
Associate Partner
For and on behalf of Ernst & Young LLP

cc. Carolyn Williamson, Director of Corporate Resources
Councillor Keith Evans, Chair of the Audit Committee

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Confidential

EY working with you

An overview of our approach

March 2019

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Our commitment to you

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Working with you

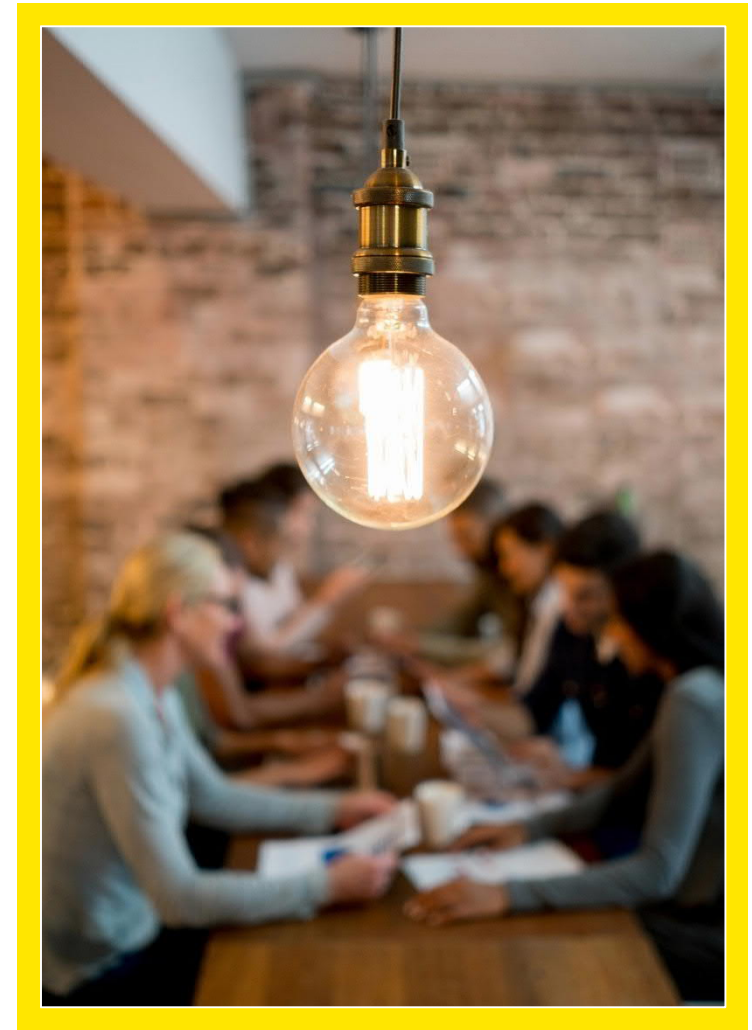
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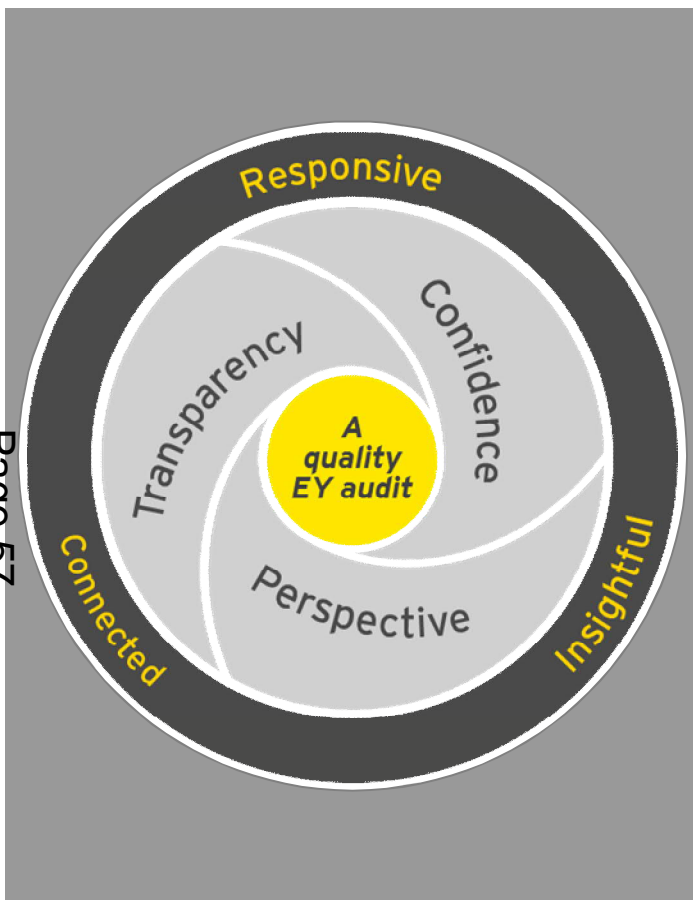
Value beyond the audit

3





Our commitment to you



Hampshire County Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which started in 2018/19. PSAA appointed EY as your auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.



Janet Dawson – Partner

I am the lead partner for this contract, and EY's Global Government and Public Sector Assurance Leader. I have been a partner in Government and Public Sector (GPS) assurance services for 14 years, and have over 20 years of experience and knowledge from working in the sector. My work across health and central government brings an understanding of the broader context of the environment that you operate within.

My appreciation of the value of audit, transparency, and the importance of working in partnership with the public sector aligns with PSAA in promoting and supporting those values through our work. I have asked Maria Grindley to lead your engagement on behalf of EY. Our commitment to quality and culture of consultation means that they will draw on the expertise within the firm in fulfilling this responsibility.

Our extensive experience of providing a range of assurance services has demonstrated that strong relationships, clear communication, and investing time with our clients to understand their issues delivers the highest quality outcomes.

This is our commitment to you.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach, and what clients can expect from us. A summary of the key points of the method statement follows. It is provided as a guide and reference for liaising with us, and a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.



Working with you

Communication

Our experience shows that close, constructive working relationships are built on trust and open dialogue.

Maria Grindley is your engagement lead and responsible for our relationship protocols, overall audit service and quality. We meet regularly with Officers and Members, discussing sector challenges and bringing insights from our network. Your engagement manager, Sarah Croft, is a key contact and brings significant experience of managing local authority audits.

Our relationship protocols allow you to escalate concerns to Janet Dawson (Contact Partner) or Steve Varley (UK Managing Partner) should you need to.

Our Audit Planning Report contains further information on our planning approach and timetable, giving you a risk based, tailored audit. We ensure our senior leaders are accessible for management and members.



Knowledge and training

Significant investment in the development of dedicated GPS teams is part of our commitment to improve skills in the public sector. Our structured recruiting and training approach delivers the best audit quality. All our training is developed by technical specialists and is quality and risk assessed. Staff must pass online tests following training, to demonstrate they can apply the learning in practice.

GPS sector specific training including emerging opportunities and risks, new requirements and specific technical areas, e.g., capital accounting, group accounts, LG pensions and other areas.

Topics are derived from our sector knowledge and stakeholder engagement.

We share these insights with you via our Audit Committee Briefings, Public Sector Accounting Workshops, Audit Committee Forums and other bespoke training sessions.



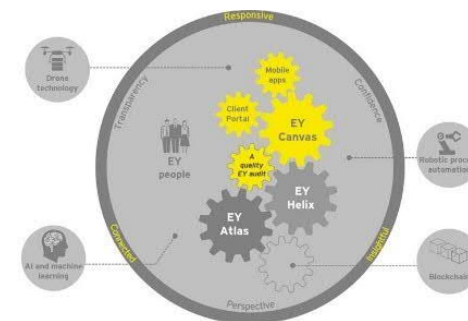
Quality and Innovation

Audit quality is our primary goal in ensuring confidence in public services in a landscape of constant change and uncertainty. Factors which contribute to achieving consistently high quality audits are our people, tailored audits, consultation, and engagement quality reviews.

Our consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues.

Audit quality is at the heart of our innovation strategy.

We will continue to innovate and integrate new technologies into our audit process. The technologies discussed so far are just the start of our journey, designed to grow and be enhanced with additional functionalities.





Value beyond the audit

In line with the firm's broader vision to build a better working world, EY's commitment to, and investment in, the public sector is focussed on delivering sustainable social value.

We are the first of the Big 4 firms to establish an apprenticeship programme awarded 'employer status' by the Skills Funding Agency, that specifically addresses the needs of deprived communities. 'EY Business Apprenticeships' is a way of investing in local people, directly challenging the UK skills gap, whilst prioritising those from deprived communities, and disadvantaged backgrounds. Our work under the PSAA contract enable us to create around 165 additional apprentice roles.

EY was also the major graduate recruiter to change our minimum entry requirements, increasing inclusivity by opening up opportunities for talented individuals regardless of their background and education.



Economic and Social

We deliver socio-economic improvements by carefully aligning existing initiatives to our clients' objectives, for example, local authorities' focus on local employability.

Examples include: Removing barriers to employment and education: our 'Smart Futures' initiative provides Year 12 students access to paid work experience, employability workshops and career talks plus 10-months of mentoring from an EY employee. We deliver this from 11 EY offices across the UK. The benefit to you is that we focus on state schools and prioritise those on free school meals. In addition, our 'Stay Curious' and 'Employability Support' initiatives raise awareness of audit career opportunities to STEM students and provide CV advice, networking, mock interviews and assessment centres. Collectively the improvement outcomes include increased employability for young people in the community, connecting schools, universities, employers and building confidence in the students themselves.

Supporting local businesses for prosperity in the community: the EY Foundation, our independent charity, supports collaboration between young people and local businesses. The benefit is a community better connected, focussed on key issues, and providing a voice to the under privileged.

Our global EY Ripples programme enables our staff to donate time to make use of their knowledge, skills and experience to support young people and impact entrepreneurs, by providing mentoring support, business skills training, and more equitable access to resources – to drive sustainable inclusive growth.

Environmental

We protect the environment by minimising waste and using resources efficiently, e.g., we proactively manage and monitor the environmental impacts of our supply chain, and our own people. We encourage carbon footprint reduction through initiatives such as Bike to Work, Flexible Working Policy, and our sustainable travel strategy. We have also made changes to our processes from procurement to recruitment to minimise the environmental impact of them on the wider world.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	23 May 2019
Title:	Minutes of the Hampshire Pension Fund Panel and Board - 14 December 2018 and 15 February 2019
Report From:	Director of Transformation and Governance

Contact name: Caroline Roser

Tel: 01962 846693

Email: caroline.rosier@hants.gov.uk

Purpose of this Report

The purpose of this report is to present the minutes from the meetings of the Hampshire Pension Fund Panel and Board which took place on 14 December 2018 and 15 February 2019.

Recommendation

1. That the Audit Committee receives and notes the minutes as attached to this report.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no

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

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

This report requests that the Audit Committee receive and note the minutes of the Hampshire Pension Fund Panel and therefore the recommended action will not impact on groups with protected characteristics in any way.

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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Wellington Room, EII South, Winchester on Friday, 14th December, 2018

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

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

Employer Representatives (Co-opted members):

p 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.

127. APOLOGIES FOR ABSENCE

Cllrs Cartwright and Smith sent their apologies.

128. 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.

129. CONFIRMATION OF MINUTES (NON-EXEMPT)

The minutes of the Pension Fund Panel and Board held on 15 November 2018 were confirmed.

130. CHAIRMAN'S ANNOUNCEMENTS

The Chairman thanked the committee and officers for their hard work throughout the past year and highlighted to the committee the imminent consultations in relation to the Pension Fund on new Pooling Guidelines and the relationship between LPGS funds and their Administering Authorities. The committee also thanked the Chairman for his leadership of their activities during the year.

131. GOVERNANCE - INTERNAL AUDIT PROGRESS REPORT

The Panel and Board received and noted a report from the Director of Corporate Resources (Item 5 in the Minute Book) on the progress of the delivery of Internal Audit's annual workplan. The Director reported that 80% of the internal audit work for the year has been delivered. There were no completed internal audit reports that had concluded there were limited or no assurance with regard to the internal controls in place.

132. GOVERNANCE - ADMINISTRATION PERFORMANCE UPDATE

The Panel and Board received a report from the Director of Corporate Resources (Item 6 in the Minute Book) on the administration of the Pension Fund and an update to the Fund's Communication Strategy. Pensions Services met its service standards for the first 2 quarters of 2018/19 with the exception of 6 divorce estimate cases which missed the 15 day service level agreement by between 1 and 2 days. In addition to the casework, 57,877 annual benefit statements were produced for active members by the statutory deadline of 31 August, covering 99.27% of the membership.

The Director reported a general improvement in the timeliness of annual returns received from the Fund's employers by Pensions Services, which are due by 30 April each year.

Amendments to the Pension Fund's Communication Strategy were presented that take account of greater online communication with scheme members. Pension Services also received positive feedback from the employers that attended the Fund's Annual Employers Meeting in October 2018.

RESOLVED:

(a) The updated Communication Policy Statement was approved.

(b) That the performance information for the first two quarters of 2018/19 was noted.

133. GOVERNANCE - REVIEW OF THE PENSION FUND'S STATUTORY

STATEMENTS

The Panel and Board received a report from the Director of Corporate Resources (Item 6 in the Minute Book) to review the Pension Fund's Business Plan, Investment Strategy Statement, Funding Strategy Statement, Governance Policy and Governance Compliance Statement and Administration Strategy Statement.

The Director reported that the Fund's Business Plan has been updated for the Pension Fund continuing to play an active part in investment pooling and responding to any relevant consultations or requests for information from the LPGS Scheme Advisory Board.

The Pension Fund's Investment Strategy Statement has been amended to reflect the recent changes agreed by the Panel and Board having taken investment advice from the consultants Hymans Robertson.

Minor changes have been made to the Pension Fund's Governance Policy to update the Pension Fund Panel and Board's decision making role in relation to investment pooling.

RESOLVED:

- (a) Progress on the Business Plan's actions were noted and the updated Business Plan was approved.
- (b) The updated Investment Strategy Statement was approved.
- (c) The updated Governance Policy and Governance Compliance Statements were approved.
- (d) The Administration Strategy Statement was approved.

134. **INVESTMENTS: PENSION FUND CASH MONITORING AND ANNUAL INVESTMENT STRATEGY 2019/20**

The Panel and Board considered a report of the Director of Corporate Resources (item 9 in the Minute Book) on the Pension Fund's cash balances and the Annual Investment Strategy for those cash balances for 2019/20. The Annual Investment Strategy had been prepared taking into account advice from the County Council's treasury management advisers, Arlingclose.

RESOLVED:

- (a) That the Annual Investment Strategy for 2019/20 be approved.
- (b) That the Annual Investment Strategy be implemented from the date of this meeting for the remainder of 2018/19.
- (c) That the Director of Corporate Resources be authorised to manage the Fund's cash balances in accordance with the policy set out in the report.

135. **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 4 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.

136. **CONFIRMATION OF THE EXEMPT MINUTES OF THE MEETING ON 15 NOVEMBER 2018**

The exempt minutes of the Pension Fund Panel and Board held on 15 November 2018 were confirmed.

137. **INVESTMENTS - CASH INVESTMENT STRATEGY - EXEMPT APPENDIX**

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

138. **GOVERNANCE: DRAFT ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 12 in the Minute Book) proposing changes to the Pension Fund's Environmental, Social and Governance Policy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

139. **INVESTMENT - INVESTMENT UPDATE**

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 performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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, 15th February, 2019

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

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

Employer Representatives (Co-opted members):

p Councillor M. Chaloner (Southampton City Council)
a Councillor J. Smith (Portsmouth City Council)
p Councillor T. Cartwright (Fareham Borough Council)
a 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:

a 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.

140. APOLOGIES FOR ABSENCE

Cllrs Smith, Tennent and Thacker, and Mr Robbins and Mrs Dobson sent their apologies.

141. 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.

142. CONFIRMATION OF MINUTES (NON-EXEMPT)

The minutes of the Pension Fund Panel and Board held on 14 December 2018 were confirmed.

143. CHAIRMAN'S ANNOUNCEMENTS

The Chairman highlighted to the committee that the Scheme Advisory Board had published its consultation on good governance in the LGPS.

The Chairman invited members to feedback to the committee on any training events that they had attended recently, and Mrs Arrowsmith updated the panel on her attendance at the SPS Investment Strategies event.

144. ACCESS JOINT GOVERNANCE COMMITTEE MINUTES - 19 SEPTEMBER 2018

The Panel and Board noted the minutes of the ACCESS Joint Committee meeting (item 5 in the minute book) held on 19 September 2018.

145. 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 4 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.

146. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 14 December 2018 were confirmed.

147. INVESTMENTS: MHCLG DRAFT POOLING GUIDANCE

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 8 in the Minute Book) outlining informal consultation from MHCLG on new draft investment pooling guidance. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

148. INVESTMENT - INVESTMENT UPDATE

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 9 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

Chairman,

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