

NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Thursday, 19th December, 2019 at 2.00 pm
Place	Chute Room, Ell South, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

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

FILMING AND BROADCAST NOTIFICATION

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

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

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

3. MINUTES OF PREVIOUS MEETING HELD ON 23 JULY 2019 (Pages 5 - 10)

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 11 - 16)

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

7. INTERNAL AUDIT PROGRESS REPORT (Pages 17 - 40)

To consider a report of the Deputy Chief Executive and Director of Corporate Resources with an update on internal audit progress.

8. PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) - EXTERNAL ASSESSMENT (Pages 41 - 48)

To consider a report of the Deputy Chief Executive and Director of Corporate Resources providing an overview of the alternative options considered in commissioning an external assessor to undertake the pending assessment of the Southern Internal Audit Partnership against the Public Sector Internal Audit Standards / Local Government Application Note.

9. TREASURY MANAGEMENT MONITORING REPORT 2019/20 (Pages 49 - 64)

To consider a report of the Deputy Chief Executive and Director of Corporate Resources with an update on the County Council's Treasury Management Strategy.

10. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 12 JULY, 26 JULY AND 27 SEPTEMBER 2019 (LESS EXEMPT) (Pages 65 - 82)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 12 July, 26 July and 27 September 2019.

11. RISK MANAGEMENT ARRANGEMENTS (Pages 83 - 88)

To consider a report of the Director of Director of Transformation and Governance – Corporate Services providing an overview of and update against the key aspects of the County Council's risk management arrangements.

12. EXCLUSION OF THE PRESS AND PUBLIC

To resolve 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 this item there would be disclosure to them of exempt information within Paragraphs 3,5 of Part 1 of Schedule 12A to the Local Government Act 1972, being information relating to any individual and information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.. Further, it is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information. While there may be a public interest in disclosing this information, it is felt that, on balance, this is outweighed by other factors in favour of maintaining the exemption, namely in favour of maintaining confidentiality, for the reasons set out in the exempt minutes.

13. RISK MANAGEMENT ARRANGEMENT - EXEMPT APPENDIX (Pages 89 - 90)

To consider an exempt appendix to the Risk Management Arrangements report.

14. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 12 JULY, 26 JULY AND 27 SEPTEMBER 2019 (EXEMPT) (Pages 91 - 104)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 12 July, 26 July and 27 September 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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Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at the castle, Winchester on Tuesday, 23rd July, 2019

Chairman:
Councillor Keith Evans

- | | |
|----------------------------|-------------------------------|
| * Councillor Alexis McEvoy | Councillor Lance Quantrill |
| Councillor Dominic Hiscock | * Councillor Tom Thacker |
| * Councillor Keith House | * Councillor Zilliah Brooks |
| * Councillor Mark Kemp-Gee | * Councillor Stephen Philpott |
| * Councillor Derek Mellor | * Councillor Bruce Tennent |
| * Councillor Rob Mocatta | Councillor David Harrison |

*Present

121. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Keith Evans, Dominick Hiscock and Lance Quantrill. Councillors Zilliah Brooks and Stephen Phillpott were in attendance as Conservative substitutes, and Councillor Bruce Tennant as the Liberal Democrat substitute Member.

Members heard that, in the absence of the Chairman, the Vice-Chairman Councillor McEvoy would chair the meeting.

122. 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 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 Personal Interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 5 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.

123. MINUTES OF PREVIOUS MEETING HELD ON 23 MAY 2019

Councillor House made Members aware that he had given apologies for the previous meeting, however these had not been received by the relevant officer in advance of the meeting commencing.

The minutes of the meeting held on 23 May 2019 were otherwise agreed as a correct record and signed by the Chairman.

124. DEPUTATIONS

There were no deputations.

125. CHAIRMAN'S ANNOUNCEMENTS

There were no announcements.

126. EXTERNAL AUDIT REPORTS 2018/19 - HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND

The Committee received and noted the external auditors draft reports for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2019.

The auditor highlighted the following:

- In line with previous years, the audit of the whole of government accounts had not yet been completed, however this was expected to be completed prior to the August deadline.
- Resulting from the five-year asset valuation cycle, consideration of any changes to the expected value of the assets not valued in-year was required, in line with national indexing. Subsequently, an adjustment to the valuation of lands and buildings had been agreed.
- The 2018/19 Code of Practice requires an additional disclosure note relating to cash-flow financing activity. This has not been included, as it was agreed as not being material to the figures reported.
- Discussion regarding classification of Dedicated Schools Grant (DSG) reserves was ongoing at a national level, to determine best practice in how they should be presented.
- The Hampshire Pension Fund Audit was awaiting an audit review, but otherwise was complete and resolved.

RESOLVED:

The Audit Committee notes the Hampshire County Council and Hampshire Pension Fund Audit Reports for year ending 31 March 2019. The finalised versions of these reports are appended to the minutes.

127. STATEMENT OF ACCOUNTS 2018/19

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources with the annual Statement of Accounts for 2018-19.

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:

That the Statement of Accounts for 2018/19 for Hampshire County Council and the Hampshire Pension Fund was approved.

Further:

- That the letters of representation for Hampshire County Council and the Hampshire Pension Fund were signed by the Chairman.
- That delegated authority be given to the Deputy Chief Executive and Director of Corporate Resources to approve any amendments to the Statement of Accounts prior to the issue of the final audit opinion and publication of the Statement of Accounts.

128. 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.

In response to Members questions it was heard that:

- The use of surveillance powers was entirely discretionary, but can be a powerful tool in gaining evidence needed in order to prove illegal activity. Generally over the past 10 years surveillance had been used in establishing the selling of counterfeit goods and of keeping animals in unacceptable conditions.
- All reports made to Trading Standards were investigated, however not all required surveillance, and powers were only used twice in the last year.
- The nature of reports had changed across the last 10 years, with marked change to increased illegal activity facilitated through online channels.

RESOLVED:

That the Audit Committee notes the contents of the report and that the County Council's surveillance powers continue to be exercised appropriately and proportionately.

The Audit Committee, in considering the County Council's use of surveillance powers for the previous financial year, provides the Executive Member for Policy and Resources with assurance that the County Council is operating its powers in a lawful and proportionate manner. Furthermore, the Audit Committee assures him of the continued use of surveillance powers by the County Council.

129. ANNUAL INTERNAL AUDIT REPORT & OPINION 2018/19

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.

Members heard that 15 limited assurance provisions were identified across 86 review areas. It was confirmed that, for each of the services where risks had been identified, a comprehensive action plan was in place and the results from these were due to inform the next audit.

In response to Members questions it was heard that:

- Risk registers were a fundamental part of the risk management process. Confirmation would be provided to the Audit Committee that the process to enable reporting against the risk register to the Corporate Management Team (CMT) was in place.
- In 2019/20 Internal Audit plan to undertake a thematic review across all departments to identify any common themes where contract management could be improved.
- Members suggestion that any proven employee fraud cases be reported anonymously across the workforce, to act as a deterrent to others, would be considered.

RESOLVED:

That the Audit Committee approves the Internal Audit Annual Report & Opinion 2019-20.

130. INTERNAL AUDIT CHARTER 2019/20

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources presenting the Internal Audit Charter 2019-20 in accordance with the requirements of the Public Sector Internal Audit Standards.

RESOLVED:

That the Audit Committee approves the Internal Audit Charter 2019-20.

131. INTERNAL AUDIT PLAN 2019/20

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources with an overview of the County Council's Internal Audit Plan.

In response to Members questions it was heard that:

- The plan would remain fluid through the year to meet the needs of the organisation but any changes will be reported to the Audit Committee as part of the update report, for transparency.
- The matrix approach to resourcing had been devised to meet the needs of the wider partnership, a benefit of which was to maximise the amount of available resource.

RESOLVED:

That the Audit Committee approves the Audit Plan for 2019–20.

132. 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 risk registers and the role of the Audit Committee in the process of developing and monitoring the risk register. It was agreed that ensuring the process behind the risk register was sufficiently robust sat with the Audit Committee, but that to consider the detail of the risk register itself may breach upon the responsibility of other scrutiny committees/processes.

RESOLVED:

That the Head of Legal Services would bring a report on the risk management process to the next meeting of the Audit Committee.

That the Audit Committee approves the draft 2018-19 Annual Governance Statement.

133. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 29 MARCH 2019 (LESS EXEMPT)

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 29 March 2019.

134. EXCLUSION OF THE PRESS AND PUBLIC

The press and public were excluded from the meeting during the following items of business, as it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would have been disclosure to them of exempt information within Paragraphs 3 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 outweighed the public interest in disclosing the information, for the reasons set out in the minutes.

135. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 29 MARCH 2019

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 29 March 2019.

Chairman, 10 December 2019

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	19 December 2019
Title:	Information Compliance – Use of Regulated Investigatory Powers
Report From:	Director of Transformation and Governance

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

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 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 2019 – 30 September 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			
Total -	0	0	0
Covert Human Intelligence Source (CHIS)			
	Purpose of Surveillance		
Quarter	C'feit Goods	Under Age Sales	Other
1	1	0	0
2	0	0	0
3			
4			
Total -	1	0	0

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

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:	19 December 2019
Title:	Internal Audit Progress Report
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Neil Pitman

Tel: 01962 845139

Email: Neil.pitman@hants.gov.uk

Purpose of this Report

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

Recommendation(s)

2. That the Audit Committee notes the Internal Audit Progress report for the period to November 2019 as attached.

Contextual Information

3. 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.

4. 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
5. Appendix 1 summarises the activities of internal audit for the period up to November 2019.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
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
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: 'Board' note the Internal Audit Progress Report, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards	

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Internal Audit Charter	23 July 2019
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

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

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

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:

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

Internal Audit Progress Report

November 2019

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 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:

Substantial

A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified.

Adequate

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.

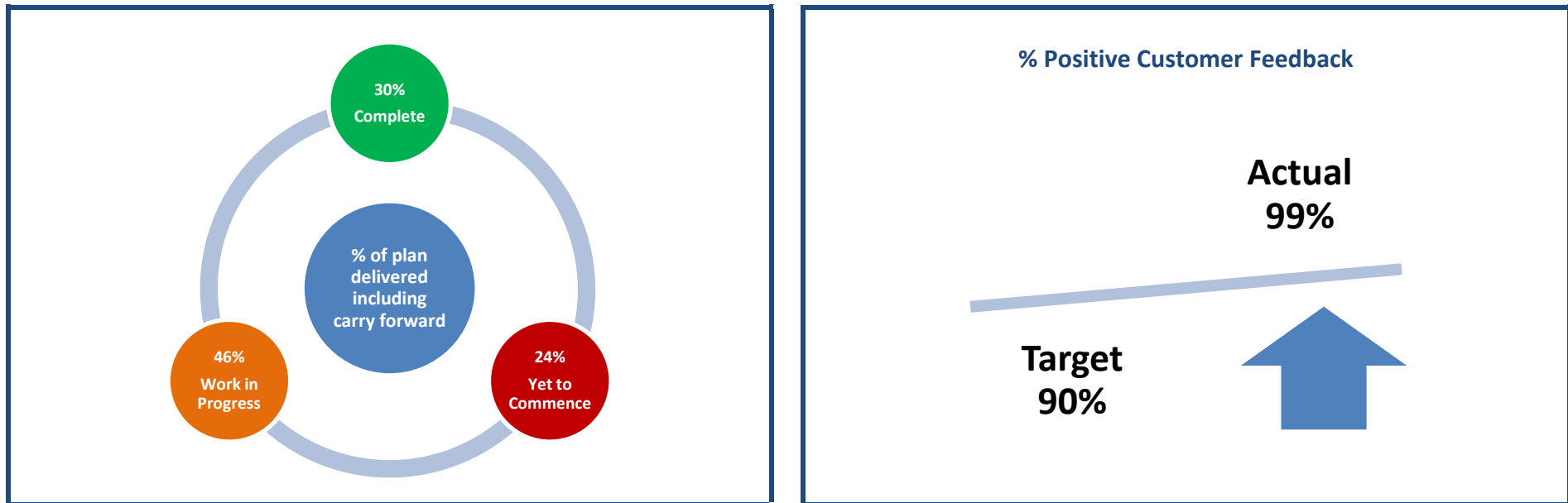
Limited

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.

No

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



Compliance with Public Sector Internal Audit Standards / Local Government Application Note



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:

*'It is our view that the Southern Internal Audit Partnership 'generally conforms' to **all** of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).*

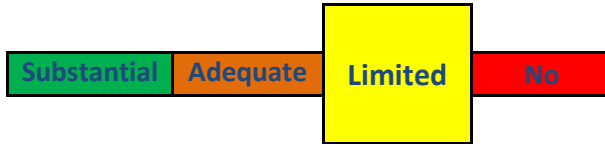
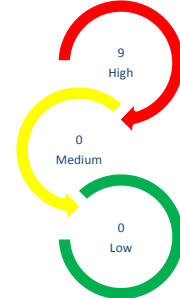
In accordance with PSIAS, a further self-assessment was completed in April 2019 concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN

4. Status of 'Live' Reports

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Respite for LD and PD	28.09.17	AH&C	Adequate	6(5)	0(0)	0(0)	5(5)	1(0)
Payroll	26.02.18	CR	Substantial	2(1)	0(0)	0(0)	1(1)	1(0)
Disability related expenses	12.04.18	AH&C	Adequate	7(0)	0(0)	0(0)	3(0)	4(0)
Health and safety	17.04.18	AH&C	Limited	10(6)	0(0)	0(0)	9(6)	1(0)
Out of County Placements	27.06.18	AH&C	Limited	5(4)	0(0)	0(0)	4(3)	1(1)
Network management and monitoring	06.07.18	CR	Adequate	11(1)	0(0)	1(0)	10(1)	0(0)
Debt Collection	06.09.18	CR	Adequate	6(1)	0(0)	0(0)	4(0)	2(1)
Health and Safety – statutory checks	02.11.18	CCBS	Limited	6(3)	0(0)	1(0)	5(3)	0(0)
Clients' monies and properties	28.11.18	AH&C	Limited	5(5)	0(0)	0(0)	2(2)	3(3)
Purchase to Pay	27.02.19	CR	Adequate	3(1)	0(0)	1(0)	2(1)	0(0)
Economic development – Key sites	26.03.19	ETE	Limited	3(0)	0(0)	0(0)	2(0)	1(0)
FNC assessments	30.04.19	AH&C	Adequate	8(4)	0(0)	0(0)	4(4)	4(0)
Home to school transport	10.07.19	CS	Limited	12(3)	0(0)	4(0)	8(3)	0(0)

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions (‘High Priority’)				
				Reported	Not Accepted	Pending	Cleared	Overdue
Contract management	29.07.19	AH&C	Limited	5(4)	0(0)	1(0)	4(4)	0(0)
Business continuity and disaster recovery	03.09.19	CoS	Adequate	5(0)	0(0)	5(0)	0(0)	0(0)
Emergency planning & BCP	24.09.19	CoS	Substantial	1(0)	0(0)	1(0)	0(0)	0(0)
IT interfaces	07.10.19	CR	Adequate	9(0)	0(0)	6(0)	3(0)	0(0)
Contract management thematic review	14.10.19	CCBS	Limited	6(0)	0(0)	6(0)	0(0)	0(0)
Commercial waste contract management	31.10.19	ETE	Limited	7(1)	0(0)	6(1)	1(0)	0(0)
Amenities, imprest and P-Cards	01.11.19	AH&C	Limited	18(8)	0(0)	15(5)	3(3)	0(0)
Contract management	08.11.19	ETE	Adequate	6(0)	0(0)	3(0)	3(0)	0(0)

5. Executive Summaries of new reports published concluding a 'Limited' or 'No' assurance opinion

Use of Agency Staff – Children's Services		
<p>Directorate Sponsor: Director of Children's Services</p> <p>Key Contacts: Steve Crocker</p> <p>Final Report Issued: 2 September 2019</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>The use of agency workers is essential to ensure the efficient and effective delivery of Council services. Hampshire County Council is committed to ensuring those workers engaged through an agency to work for the Council on a temporary basis are treated in compliance with the Agency Workers Regulations for which relevant and up to date policy and guidance exists.</p> <p>Testing of agency staff acquired by Children's Services through the Council's former framework 'Matrix' along with those commissioned 'off-contract' highlighted weaknesses in the absence of retained documentation to support the audit trail for pre-employment checks. There was also a lack of evidence to substantiate the approval to recruit agency workers (on or off-contract) and further to any contract extensions (beyond an initial 90-day).</p> <p>Additionally, there was no clarity or guidance available to managers with regard the retention of supervision files on completion of the agency workers contract.</p> <p>All management actions raised to mitigate identified risks have been implemented.</p>		

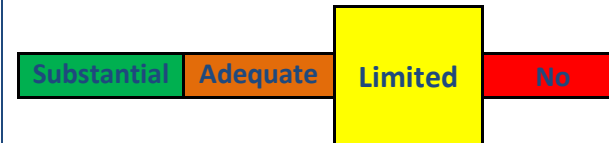
Management of Guardianship – Mental Health

Directorate Sponsor: Director of Adults' Health & Care

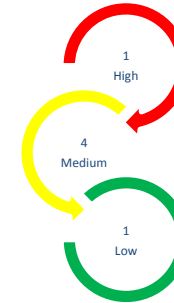
Key Contacts: Graham Allen

Final Report Issued: 28 October 2019

Assurance opinion:



Management Actions:

**Summary of key observations:**

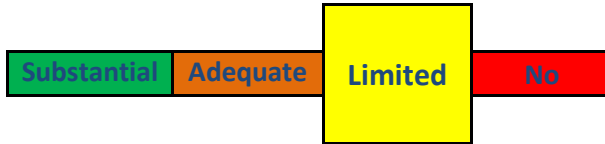
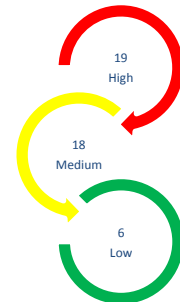
A review of all service users subject to a Guardianship Order was undertaken to ensure compliance with established policies and procedures.

Testing highlighted that in all cases there was a lack of documentation and/ or records supporting the guardianship application, renewal and discharge processes. Whilst each record retained some documentation, there was no one client reviewed for which all necessary documentation was evident. Key documents omitted from case files included:

- Completed guardianship applications forms;
- Evidence of doctor's examinations;
- Adequate copies of care plans;
- Renewal forms; or
- AIS legal events

There is a risk that in the absence of key documentation the authority may be unable to demonstrate that a guardianship order has been properly administered or has been made in the best interest of the client and is not a deprivation of the client's liberties.

All management actions raised to mitigate identified risks have been implemented.

Thematic Review - Amenities Funds, Imprest and P-Cards – Adults' Health & Care		
<p>Directorate Sponsor: Director of Adults' Health & Care</p> <p>Key Contacts: Graham Allen</p> <p>Final Report Issued: 1 November 2019</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>Visits were undertaken to a selection of six Adult Health Care (in-house) establishments to complete sample testing of transactions for amenities funds, imprest account and purchasing cards over the past 12 months.</p> <p>Amenities accounts</p> <p>Amenities accounts are reconciled monthly by the Administrative Officers and are signed by the Registered Manager. Account signatories are set up appropriately and there is sufficient segregation of duties in place. Cash and controlled stationery are held securely with only a limited number of staff having access.</p> <p>However, although staff are generally aware of the procedures that need to be followed for the day to day running of the amenities funds, there was no up to date guidance in place to ensure on-going standards and consistency of approach.</p> <p>Additionally, during testing there were examples of transactions which were unsupported by receipts, unauthorised, and documentation not appropriately signed off.</p> <p>For one establishment, that has a resident's shop, there was no transaction or stock documentation maintained, increasing the risk of loss or theft of cash / goods</p>		

Imprest accounts

Hampshire County Council guidance and procedures were used for the administration of the imprest accounts and balances were found to be set at a level which met the needs of the establishment. Additionally, cash and controlled stationery were held securely with only a limited number of staff having access.

However, during testing transactions were found which were unsupported by receipts. There were also examples of transactions which were not authorised, and documentation not signed by two members of staff. Additionally, VAT was not being treated consistently and, in some cases, had been calculated or treated incorrectly.

Two of the establishments have regularly been overdrawn on their bank account balances.

Purchasing cards

Purchasing cards are generally being used in accordance with the Corporate Policy, card holders are aware of what can and cannot be purchased with the cards.

However, across three of the establishments visited transactions were not routinely supported by a receipt (44% of cases tested). Additionally, across five establishments, VAT was not always correctly accounted for (38% of cases tested). This included VAT being reclaimed where there was no valid VAT receipt as well as cases where VAT was not reclaimed but could have been.

There were examples of transactions not being authorised in the RBS system as well as instances of the cardholder review not taking place. From an RBS system report of 50 transactions sampled, 10 had not been reviewed by the cardholder and 23 had not been approved.

All management actions are on track to be delivered in accordance with timescales and a follow-up audit has been requested during 2020

6. 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 7.


7. Rolling Work Programme


Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
2019-20 (Inc 18/19 Carry forward)									
Business Continuity / emergency planning	CoS	✓	✓	✓	✓	24.9.19	Adequate		
Local management - invoices	Corp	✓	✓	✓	✓				
GDPR	DPG	✓	✓	✓	✓				
IT Business continuity & disaster recovery	CR	✓	✓	✓	✓	03.09.19	Adequate		
Mental Health Management of Guardianship	AH&C	✓	✓	✓	✓	28.10.19	Limited		
Brokerage Team	AH&C	✓	✓	✓	✓	01.11.19	Adequate		
Traffic management	ETE	✓	✓	✓	✓	30.09.19	Adequate		
Contract management thematic review - CCBS	CCBS	✓	✓	✓	✓	14.10.19	Limited		
Contract management thematic review - CS	CS	✓	✓	✓	✓	05.06.19	Adequate		
Budget monitoring thematic review – CS	CS	✓	✓	✓	✓	04.07.19	Adequate		

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
ICT - user accesses	CR	✓	✓	✓					
Workforce Development	CR	✓	✓	✓	✓	N/A	N/A		Consultancy
Commercial waste contract management	CCBS	✓	✓	✓	✓	31.10.19	Limited		
Traded Services (outside SS)	CCBS								Q4
Hantsdirect – service standards	CR								Q4
Information security	CR	✓	✓						
Local management of Shared Services processes	CR								Q4
Staff agency arrangements	CR								Q4
Performance management	CR								Q4
Risk management	CoS	✓							
Insurance fund	CoS								Q4
Annual Governance Statement	CoS	✓	✓	✓	N/A	N/A	N/A		Consultancy
Annual self-assessment against internal audit standards	CR	✓	✓	✓	N/A	N/A	N/A		Assessment
Inclusion and diversity	ACE								Q4
Armed forces covenant	ACE								Q4
Premis	CCBS	✓	✓	✓	✓				
IT Capacity planning and management	CR	✓	✓	✓					

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
IT Change management	CR								Q4
SAP Development Requests	CR	✓	✓	✓					
IT Business processes and ordering process	CR	✓							
PCI compliance	CR	✓	✓	✓	N/A	N/A	N/A		Consultancy
Data storage	CR	✓	✓	✓					
Data centre security	CR	✓	✓						
Interfaces	CR	✓	✓	✓	✓	07.10.19	Adequate		
Application review – GIS	CR	✓	✓	✓					
Cyber security	CR	✓	✓						
Portfolio management	CR	✓	✓	✓					
IT Service management - asset management	CR								Q4
Safeguarding – children assurance mapping	CS								Q4
School thematic review – performance management	CS	✓	✓	✓	✓				
School thematic review – recruitment	CS								Q4
School thematic review – bad debt	CS	✓	✓	✓					
School thematic review – procurement	CS								Q4
Children's Services establishments thematic review	CS	✓	✓						

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Anton Junior follow up	CS	✓	✓	✓	✓	19.07.19	N/A		
Crescent Primary follow up	CS	✓	✓	✓	✓				
SFVS	CS	✓	✓	✓	N/A	N/A	N/A		Assessment
Care leavers	CS	✓	✓						
Supporting families – governance	CS								Q4
Hampshire Education Psychology Service	CS								Q4
Education provision for secure and hospital units	CS	✓							
Foster care payments and Early Year financial checks	CS	✓	✓	✓	N/A	N/A	N/A		Advisory
Health assessments	CS	✓	✓	✓					
AH&C thematic review - workforce development	AH&C	✓							
AH&C thematic review - medicine control	AH&C	✓	✓	✓					
AH&C thematic review - amenities funds	AH&C	✓	✓	✓	✓	01.11.19	Limited		
Direct payments	AH&C	✓							
Notification of deaths	AH&C								Q4
Help to live at home	AH&C	✓	✓	✓	✓	01.11.19	Adequate		
Client waiting lists	AH&C	✓	✓	✓					
MH professionals – approval / warranting process	AH&C	✓	✓	✓					

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule  Delay)	Comment
Payments to providers	AH&C	✓	✓	✓	✓	01.11.19	Adequate		
Charging of short-term beds	AH&C	✓	✓	✓					
Recording in AIS	AH&C	✓	✓	✓					
Flood management	ETE	✓	✓	✓					
Traffic management	ETE								Q4
Local bus subsidy support	ETE	✓							
M3 Enterprise LEP	ETE	✓	✓	✓					
Road agreements (Advance Payment Code)	ETE	✓	✓						
Highway development planning	ETE	✓							
Governance of Integrated Transport Programme capital schemes	ETE	✓	✓						
GDPR – ETE tourism, regeneration, business growth	ETE	✓							
Highway maintenance – agency agreements	ETE	✓	✓	✓					
Engineering consultancy – bridges	ETE	✓	✓	✓	✓	18.10.19	Substantial		
Highways HQ operations centre	ETE	✓	✓	✓					
Trading Standards	CCBS	✓	✓						
Asbestos Service – Electric cars	CCBS	✓							
Scientific service	CCBS								Q4

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule  Delay)	Comment
Hampshire catering service HC3S	CCBS	✓	✓						
Health and safety – project delivery	CCBS	✓							
Integration of property and facilities management	CCBS								Q4
Superfast broadband programme	CCBS	✓	✓						
Contract administration – property services	CCBS	✓	✓	✓					
Construction framework major	CCBS	✓	✓						
Construction framework intermediate	CCBS								Q4
Procurement thematic review - CCBS	CCBS								Q4
Procurement thematic review – CS	CS	✓	✓						
Contract management – waste disposal	ETE	✓	✓	✓	✓	✓	Substantial		
Project Integra	ETE	✓	N/A	✓	N/A	N/A	N/A		
Contract management thematic review – ETE	ETE	✓	✓	✓	✓	8.11.19	Adequate		
Contract management thematic review – CR	CR	✓							
Reading and Hampshire Property Partnership	CCBS	✓	N/A	✓	N/A	✓	N/A		
Local transport capital block funding	ETE	✓	N/A	✓	N/A	✓	N/A		Grant
Local authority bus subsidy grant	ETE	✓	N/A	✓	N/A	✓	N/A		Grant
Disabled facilities grant	AH&C	✓	N/A	✓	N/A	✓	N/A		Grant

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Bus rapid transit	ETE								Q4
Safer roads fund (A27)	ETE	✓	N/A	✓	N/A	✓	N/A		Grant
Safer roads fund (A32)	ETE	✓	N/A	✓	N/A	✓	N/A		Grant
Safer roads fund (A36)	ETE	✓	N/A	✓	N/A	✓	N/A		Grant
National productivity investment fund (SE rapid transit)	ETE	✓	N/A	✓	N/A	✓	N/A		Grant
Enterprise M3 growth hub grant	ETE	✓	N/A	✓	N/A	✓	N/A		Grant
Air quality management grant	ETE								Q4
Academies SLA	CCBS	✓	N/A	✓	N/A	✓	N/A		
Local Resilience Forum Brexit Contingency Grant	ETE	✓							
Governance arrangements – Shared Services	CR								Q4
IR35	CR								Q4
Disclosure and Barring Service	CR	✓	✓						
Success factors	CR	✓	✓						
Treasury management	CR	✓	✓	✓					
Master Data Team	CR								Q4
Payroll – pension admin	CR								Q4
Procurement	CoS	✓	✓						

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Building term contract management	CCBS	✓	✓						

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 2019/20 audit plan approved by the Audit Committee in June 2019.

Plan Variations	
Removed from the plan	Reason
Public Services Network	HCC is externally independently assessed on this.
Casual staff (SS)	Deferred to 20/21
County Highways Laboratory	Deferred due to transformation project in progress
Private sector partner arrangement	Defer to 2020
Coroners Service	Defer to 2020
Culture and Heritage Thematic Review	Defer to 2020
Public health peer review follow-up	Peer review did not take place as planned
Economic Development (Key Sites Portfolio)	Postpone the audit until next year once the website / portfolios are bedded in
Health & Safety	Ongoing restructure and review of internal assurances. To revisit in 2020/21 (Q2)
Additions to the plan	Reason
IT Service management/asset management	Deferred from 18/19 Plan as per client request
Air quality management grant	New grant
Academies SLA	New request for end of year accounts and Academies contributions to be audited.
Asbestos Service	New request to replace Coroners service audit

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	19 December 2019
Title:	PSIAS – External Assessment
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Neil Pitman

Tel: 01962 845139

Email: Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to provide an overview of the alternative options considered in commissioning an external assessor to undertake the pending assessment of the Southern Internal Audit Partnership against the Public Sector Internal Audit Standards / Local Government Application Note.

Recommendation(s)

2. That the Audit Committee notes arrangements for the pending external assessment of the Southern Internal Audit Partnership against the Public Sector Internal Audit Standards.

Contextual Information

3. The Accounts and Audit (England) Regulations 2015 – S5 state:
‘(1) 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.’
4. The ‘Public Sector Internal Audit Standards’ and the ‘Local Government Application Note’ together comprise *‘internal auditing standards and guidance’* as referenced in the regulations.
5. The Public Sector Internal Audit Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit service which includes provision for both internal and external quality assessments.

6. An external quality assessment is required to be undertaken every five years. The last external assessment of the Southern Internal Audit Partnership (SIAP) was completed in October 2015 by the Institute of Internal Auditors (IIA).

Form of External Quality Assessment (EQA)

7. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.
8. Full External Quality Assessment - incorporates the acquisition and validation of evidence to support compliance with the Standards coupled with, surveys and interviews with stakeholders leading to the completion of an independent report.
9. Validated self-assessment - is initially carried out by the Head of Southern Internal Audit Partnership. The external assessment team will review / validate evidence produced to support the self-assessment and in addition conduct interviews with all key stakeholders including Members, Senior Officers (incl S151's), key audit contacts and staff.
10. A validation report will be produced and appended to the head of internal audit's self-assessment.
11. The sole difference between the two approaches is that the Full EQA will require the assessor to request and compile for themselves a significant proportion of the documentation to support the PSIAS / LGAN checklist, whereas for the validated self-assessment the PSIAS / LGAN checklist will be completed by the Head of the Southern Internal Audit Partnership and the assessors will review the compiled evidence.

External Assessor

12. In accordance with the Standards (A1312) a qualified assessor or assessment team must demonstrate competence in two areas:
 - the professional practice of internal auditing; and
 - the external assessment process.
13. An independent assessor or assessment team means not having either a real or apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

14. There are a number of organisations capable of providing external assessments to meet the requirements of the PSIAS, the most credible being Chartered Institute of Public Finance and Accountancy (CIPFA) and the IIA.
15. Both the IIA and CIPFA are professional institutions and provide similar offerings in respect of a validated self-assessment, however, consensus amongst the profession is that CIPFA have become less prominent in the discipline of internal audit over the last five or so years with the IIA now being the clear market leader for internal audit standards, innovation and best practice. A table is presented at Appendix 1 outlining the respective approaches coupled with the key benefits and risks of both the IIA and CIPFA.
16. Additionally, there is scope within the PSIAS for an external assessment to be undertaken as a peer review. This is a format that has been adopted by some other local Partnerships including:
 - South West Internal Audit Partnership;
 - Devon Audit Partnership; and
 - Orbis
17. Due to their nature there would be no financial outlay in adopting this approach, however, there would be the opportunity costs of the Head of the Southern Internal Audit Partnerships time in reciprocating any peer review requested of the SIAP.
18. The independent status of the external assessment is paramount and there may be a perception that this is diminished as part of the peer review approach and that Partners within the SIAP would gain greater assurance through endorsement from a professional institution. As such the collaborative approach has not been explored further as part of this paper.

Summary

19. The options outlined in the report are all permissible and acceptable sources through which to conform to the requirements of the external assessment.

Assessment

20. Full External Assessment – this would provide a compliant process, however, the additional time and cost required of the Full EQA would be significantly more than the validated self-assessment with no additional benefits gained.

21. Validated self-assessment – this would provide a compliant process with all the benefits of a full external assessment; however, costs are reduced in that the Head of the SIAP will compile all the relevant paperwork for the external assessor to review and validate.

Assessor

22. IIA - are market leaders in the professional discipline of internal audit both in the public and private sector. The IIA have undertaken numerous validated external assessments across local authorities and private industries. As the authors of the Public Sector Internal Audit Standards it is my opinion that they are the most credible source of endorsement for the SIAP and subsequent source of assurance to our partners
23. CIPFA – undertaken validated external assessments across a number of other local authorities, however their presence and focus on internal audit in recent years raises some concerns over the added value they will be able to bring through the assessment process.

Conclusion

24. To accord with the PSIAS / LGAN the Head of the Southern Internal Audit Partnership has put in place arrangements for a validated self-assessment to be conducted by the IIA during autumn 2020. The full scope of the external assessment will be submitted to a future meeting of the Audit Committee for their endorsement.

Appendix 1

Comparison of External Assessment Providers

Assessment Criteria	CIPFA	IIA
Independence	No conflict of interest and is not under the control of, nor does it form a part of any organisation within the Southern Internal Audit Partnership.	No conflict of interest and is not under the control of, nor does it form a part of any organisation within the Southern Internal Audit Partnership.
Qualification	<ul style="list-style-type: none"> ● Undertaken reviews across a range of local authorities; ● Some engagement in the production of the PSIAS & LGAN 	<ul style="list-style-type: none"> ● PSIAS based on IIA International Professional Practices Framework. ● Exclusively focused on the internal audit profession ● Team selected from the EQA review panel with industry experts to suit the Partnerships needs ● Sector Experience ● Extensive experience of private sector
Approach	<ul style="list-style-type: none"> ● Agree project plan to include timetable for completion ● Interviews to be held with stakeholders: <ul style="list-style-type: none"> ○ Chief Executive; ○ Strategic Directors; ○ Chair of Audit Committee ○ Other internal audit clients ● Review all aspects of the internal audit function and compare findings to the self-assessment against attribute and performance standards (will include interviews with CIA, audit managers, audit staff, customers, external audit) ● Review audit reports and working papers ● Prepare and discuss draft report ● Issue final report 	<ul style="list-style-type: none"> ● Prior to on-site visit, evaluate self-assessment. ● Interviews with audit committee members, senior executives for views on performance / impact of internal audit ● Review all aspects of policies, procedures and practices ensuring compliance through review of engagement files ● Executive report to include: <ul style="list-style-type: none"> ● Assessment of the effectiveness of the SIAP against the PSIAS; ● View on the maturity of the audit function; ● Appraisal of how internal audit is perceived by the board, senior management and other stakeholders; ● Suggestions for improvement

Assessment Criteria	CIPFA	IIA
Benefits	<ul style="list-style-type: none"> ● Professional institution. ● Respected across the public sector. 	<ul style="list-style-type: none"> ● Credible source of assessment. ● Industry standard setters. ● Ability to benchmark SIAP against other public / private sector providers ● Professional institution ● Highly respected across the public and private sectors
Risks	<ul style="list-style-type: none"> ● Diminishing focus on internal audit ● Added value beyond accreditation 	

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
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
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: 'Board' engagement in relation to the pending external assessment of the SIAP in accordance with the Public Sector Internal Audit Standards and Local Government Application Note.	

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Internal Audit Charter	23 July 2019
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

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

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

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:

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

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	19 December 2019
Title:	Treasury Management Mid-year Monitoring Report 2019/20
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 mid-year 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 and provides an update on the performance of the treasury management function during 2019/20.
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. 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.
8. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2019/20, 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.
9. 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

10. The following sections outline the current key economic themes against which investment and borrowing decisions were made in 2019/20.

Economic commentary

11. UK Consumer Price Inflation (CPI) for June 2019 was 2.0% year on year, coming in at consensus and meeting the Bank of England's inflation target.
12. Labour market data for the three months to May 2019 showed the unemployment rate remained at a low of 3.8% while the employment rate of 76.0% dipped by 0.1%, the first quarterly decrease since June to August 2018. Once adjusted for inflation, real wages were up 1.7% on an annual basis as wages continue to rise steadily and provide some upward pressure on general inflation

13. There was a rise in quarterly GDP growth in the first calendar quarter for 2019 from 0.2% in Q4 2018 to 0.5%, with stockpiling ahead of the expected March 2019 Brexit date distorting data. Production and construction registered positive output and growth in the period, however at the end of June 2019, seasonally adjusted Markit UK Construction PMI (Purchasing Manager's Index) logged a record-low figure of 43.1, suggesting that construction has suffered the largest contraction in output since April 2009. GDP growth was 1.8% year/year, however with the service sector slowing and a weaker global backdrop the outlook was for subdued growth.
14. In early July, the Bank of England Governor Mark Carney signalled a major shift to the Bank's rhetoric and increased the possibility of interest rate cuts, however the Monetary Policy Committee voted unanimously to maintain the official Bank Rate at 0.75% at the September 2019 meeting.
15. Globally, the European Central Bank cut its deposit rate by 10 basis points in September 2019 alongside announcing another round of stimulus, which was closely followed by a 25 basis points cut by the US Federal Reserve.

Financial markets

16. Markets have rallied since the beginning of 2019, and the FTSE 100 was up over 10% in pure price terms for the first 6 months of the calendar year, with most of the gains achieved in the first quarter of the calendar year.
17. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. Gilt yields fell, with the 5-year benchmark gilt yield falling from 0.75% at the start of April to 0.63% at the end of June. There were falls in the 10-year and 20-year gilts over the same period dropping from 1.00% to 0.83% and from 1.47% to 1.35% respectively. Money markets rates stabilised with 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaging 0.60%, 0.68% and 0.92% respectively over the period.
18. Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. The US yield curve inverted (10-year Treasury yields were lower than US 3-month money market rates) in March 2019 and this relationship remained and broadened throughout the period. History has shown that a recession hasn't been far behind a yield curve inversion.
19. Germany sold 10-year Bunds at -0.24% in June, the lowest yield on record. Bund yields had been trading at record lows in the secondary market for some time, however the negative yield in the primary market suggests that if investors were to hold until maturity, they are guaranteed to sustain a loss - highlighting the uncertain outlook for Europe's economy.

Credit background

20. Credit Default Swap (CDS) spreads fell slightly across the board during the quarter, continuing to remain low in historical terms. After hitting around 97bps at the start of the period, the spread on non-ringfenced bank NatWest Markets plc fell back to around 82bps at the end of June, while for the ringfenced entity, National Westminster Bank plc, the spread fell from 67bps to 58bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 28 and 59bps at the end of the period.
21. S&P upgraded RBS Group and its subsidiaries, raising the long-term issuer ratings by one notch due to RBS Group's strengthened credit fundamentals following a long period of restructuring. S&P believes the group and its subsidiaries have enhanced their capacity to manage the current UK political and economic uncertainties.
22. There were minimal other credit rating changes during the period to the end of June 2019. Moody's revised the outlook on Barclays Bank PLC to positive from stable and also revised the outlook to stable from negative for Goldman Sachs International Bank.

Local Context

23. On 31 March 2019, the County Council had net borrowing of £34.4m 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	31/03/2019 Balance £m
CFR	(780.9)
Less: Other debt liabilities*	157.0
Borrowing CFR	(623.9)
Less: resources for investment	589.5
Net borrowing	(34.4)

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

24. The County Council's current strategy is 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 August 2019 and the movement since 31 March 2019 is shown in Table 2

below.

Table 2: Treasury Management Summary	31/3/19 Balance £m	Movement £m	31/8/19 Balance £m	31/8/19 Rate %
Long-term borrowing	(271.3)	1.0	(270.3)	4.62
Short-term borrowing	(9.1)	0.5	(8.6)	4.27
Total borrowing	(280.4)	1.5	(278.9)	4.61
Long-term investments	342.3	(40.1)	302.2	3.19
Short-term investments	184.0	60.6	244.6	1.03
Cash and cash equivalents	56.3	(18.3)	38.0	0.74
Total investments	582.6	2.2	584.8	2.13
Net investments	302.2	3.7	305.9	

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

25. The increase in net investments of £3.7m shown in Table 2 above reflects the combination of repayment of Public Works Loan Board (PWLB) borrowing of £1.5m and a small increase in investment balances of £2.2m.
26. The repayment of borrowing is in line with the County Council's policy on internal borrowing. The increase in total investments reflects the fact that the balance at 31 March is typically the lowest of the year, due to many government grants being front loaded.

Borrowing Activity

27. At 31 August 2019 the County Council held £278.9m of loans (a decrease of £1.5m from 31 March 2019) as part of its strategy for funding previous years' capital programmes. Further details are summarised in Table 3 below.

Table 3: Borrowing Position	31/3/19 Balance £m	Net Movement £m	31/8/19 Balance £m	31/8/19 Weighted Average Rate %	31/8/19 Weighted Average Maturity (years)
Public Works Loan Board	235.6	(1.5)	234.1	4.71	11.4
Banks (LOBO)	20.0	0	20.0	4.76	13.9
Other (fixed term)	24.8	0	24.8	3.54	17.5
Total borrowing	280.4	(1.5)	278.9	4.61	12.1

Note: the figures in the table above at 31 March 2019 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.

28. 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.
29. 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.
30. With the assistance of Arlingclose, the benefits of this internal borrowing are regularly monitored against the potential for incurring additional costs by deferring borrowing into future years, when long-term borrowing costs may be higher.
31. As a result, no new borrowing was undertaken and £1.5m 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.
32. 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

33. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. The County Council's investment balance was £585m at 31 August 2019, which was £6m lower than at the same point in 2018/19.

34. During the five-month period to 31 August 2019, the County Council's investment balances ranged between £575m and £677m million due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury Investment Position	31/03/2019 Balance £m	Net Movement £m	31/08/2019 Balance £m	31/8/19 Income Return %	31/8/19 Weighted Average Maturity years*
Short term investments					
- Banks and Building Societies:					
- Unsecured	30.4	10.6	41.0	0.97	0.18
- Secured	15.0	40.1	55.1	1.03	0.68
- Money Market Funds	55.3	(18.3)	37.0	0.74	0.00
- Local Authorities	124.5	15.0	139.5	1.02	0.33
- Corporate Bonds	-	0.0	-	-	-
- Registered Provider	5.0	(5.0)	-	-	-
- Cash Plus funds	10.0	0.0	10.0	1.64	n/a
Total	240.2	42.4	282.6	1.00	0.33
Long term investments					
- Banks and Building Societies:					
- Secured	73.3	(40.1)	33.2	1.38	2.94
- Local Authorities	78.0	(10.0)	68.0	1.36	1.99
Total	151.3	(50.1)	101.2	1.37	2.30
Long term investments – high yielding strategy					
- Local Authorities					
- Fixed deposits	20.0	0.0	20.0	3.96	14.55
- Fixed bonds	10.0	0.0	10.0	4.20	14.36
- Pooled Funds					
- Pooled property**	67.0	10.0	77.0	3.89	n/a
- Pooled equity**	52.0	0.0	52.0	4.90	n/a
- Pooled multi-asset**	42.0	0.0	42.0	3.58	n/a
- Registered provider	-	0.0	-	-	-
Total	191.0	10.0	201.0	4.11	14.49
Total investments	582.5	2.3	584.8	2.13	1.88

* The weighted average maturity figures exclude pooled fund and cash plus funds, which have no fixed end date.

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 June 2019.

Note: the figures in the table above at 31 March 2019 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.

35. 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.
36. 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.
37. 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.
38. 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.
39. 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.
40. To ensure sufficient liquidity, the County Council makes use of call accounts and money market funds. With the uncertainty around Brexit, the Council will ensure there are enough accounts open at UK domiciled banks and Money Market Funds to hold sufficient liquidity and that its account with the Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.
41. 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 %
31.03.2019	AA	21%	758	1.35%
30.06.2019	AA-	28%	648	1.25%
Similar LAs	AA-	51%	956	1.01%
All LAs	AA-	62%	28	0.85%

42. To reduce risk, approximately 72% of the County Council's surplus cash is invested so that it is not subject to bail-in risk, with the remaining balance largely held in overnight money market funds and cash plus funds, which are subject to reduced bail in risk. By comparison, only 49% of the cash held by other similar Local Authorities is not subject to bail-in risk.
43. The UK Bank Rate has remained at 0.75% since August 2018 and short-term money market rates have also continued to be relatively low. This has had an ongoing impact on the Council's ability to generate income on cash investments, however returns on internally managed investments have been greater than for comparable local authorities.
44. As the County Council has relatively stable cash balances, the allocation to investments targeting higher yields was increased from £200m to £235m as part of the Treasury Management Strategy for 2019/20, with the aim of increasing the level of income contributed to the revenue budget without impacting liquidity.
45. £201m of this amount has now been invested, £171m of which is in strategic multi-asset, equity and property funds which returned an average income of over 4.1% in dividend payments in the year to the end of June 2019.
46. These investments have fallen in value in the first half of 2019/20 due to volatility in the markets and are currently worth £660,000 less than the amount originally invested (a fall in percentage terms of 0.39%).
47. It is, however, the County Council's intention to hold these investments for at least the medium-term and losses would only be crystallised if the investments were sold. 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, whilst also providing regular income, diversification and the potential for capital growth.

48. Recent changes to accounting regulations (IFRS9) have introduced a new risk related to the County Council's investments in pooled funds whereby any fall in the capital value of the funds would now have to be taken as an expenditure charge to the Council's Income and Expenditure account. This does not though present an immediate risk to the County Council, as there is currently a statutory override in place that provides a 4 year grace period before this requirement is implemented.
49. If no further changes are made at the end of the 4 year period, the risk of a fall in value resulting in an expenditure charge for the Council County will be mitigated by reserves accrued through any increases in the value of the County Council's investments over the next 4 years. In addition, a further £3m has already been added to reserves from investment income.
50. The performance and ongoing suitability of these pooled funds in meeting the County Council's investment objectives is monitored regularly and discussed with Arlingclose.

Non-Treasury Investments

51. 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.
52. 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.
53. The County Council's existing non-treasury investments are listed in Table 6 below.

Table 6 – Non-Treasury Investments	31/08/19 Asset value £m	31/08/19 Rate %
Loans to Hampshire based business	9.5	4.00
Joint venture recruitment agency	0.2	5.00
Total	9.7	4.02

Compliance Report

54. 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 Treasury Management Strategy.
55. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 7 below.

Table 7 – Debt Limits	2019/20 Maximum	31/08/19 Actual	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied?
Borrowing	280	279	690	730	✓
PFI and Finance Leases	157	157	160	200	✓
Total debt	437	436	850	930	✓

Treasury Management Indicators

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

Interest Rate Exposures

57. 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	31/08/19 Actual	Impact of +/-1% interest rate change
Variable interest rate investment exposure	£313m	+/- £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

58. 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	31/08/19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3.6%	50%	0%	✓
12 months and within 24 months	4.2%	50%	0%	✓
24 months and within 5 years	9.4%	50%	0%	✓
5 years and within 10 years	18.3%	75%	0%	✓
10 years and within 20 years	54.5%	75%	0%	✓
20 years and within 30 years	10.0%	75%	0%	✓
30 years and above	0.0%	100%	0%	✓

59. 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

60. 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	2019/20	2020/21	2020/21
Actual principal invested beyond year end	£365m	£274m	£246m
Limit on principal invested beyond year end	£410m	£350m	£350m
Complied?	✓	✓	✓

61. The table includes investments in strategic pooled funds of £171m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

Outlook for the remainder of 2019/20

62. Having increased interest rates by 0.25% in November 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) is now expected to

maintain Bank Rate at this level for the foreseeable future. There are, however, upside and downside risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.

63. With the downside risks to the UK economy growing and little likelihood of current global trade tensions being resolved imminently and global growth recovering soon thereafter, our treasury advisor Arlingclose's central forecast is for that the Bank of England's MPC will maintain Bank Rate at 0.75% but will stand ready to cut rates should the Brexit process engender more uncertainty for business and consumer confidence and for economic activity.

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

64. Gilt yields have fallen to recent lows. Resolution of global political uncertainty would see yields rise but volatility arising from both economic and political events continue to offer longer-term borrowing opportunities for those clients looking to lock in some interest rate certainty.

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.

NB: If the 'Other significant links' section below is not applicable, please delete it.

Other Significant Links

Links to previous Member decisions:

<u>Title</u>	<u>Date</u>

Direct links to specific legislation or Government Directives

<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

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

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:

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

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AT A MEETING of the Hampshire Pension Fund Panel and Board of
HAMPSHIRE COUNTY COUNCIL held at Chute Room, Ell South, Winchester
on Friday, 12th July, 2019

Chairman:
a Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

p C. Carter	p A. Joy
p A. Dowden	p P. Latham
p A. Gibson	p J. Glen
a B. Tennent	p T. Thacker (vice-chairman)
p D. Mellor	

Employer Representatives (Co-opted members):

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

160. APOLOGIES FOR ABSENCE

Cllrs Latham, Cartwright, Smith, Mrs Arrowsmith and Mrs Dobson sent their apologies.

161. 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.

162. CONFIRMATION OF MINUTES (NON-EXEMPT)

The minutes of the Pension Fund Panel and Board held on 29 March 2019 were confirmed.

163. CHAIRMAN'S ANNOUNCEMENTS

The Chairman congratulated Carolyn Williamson, Deputy Chief Executive and Director of Corporate Resources on being appointed as President of CIPFA.

The Chairman welcomed Cllr Barnes-Andrews back to the Panel and Board representing Southampton City Council and congratulated Dr Allen on being reappointed as the Pensioner Representative.

The Chairman informed members he had been elected Vice-Chairman of the ACCESS Joint Committee.

The Chairman invited members to provide feedback on any recent training courses. Cllr Glen updated the committee on a conference provided by Mallor Street and Cllr Gibson on an SPS conference on Cash Management and Liability Matching both had a significant focus on Environmental, Social and Governance (ESG) factors in investment decisions.

The Chairman asked Andy Lowe, Head of Pensions Investments and Borrowing to provide an update for the committee on the recent McCloud case.

164. DEPUTATION

In accordance with Standing Order 12, the Panel and Board received a deputation from Chris Holloway, a member of Winchester Action on Climate Change, who spoke about the risk of investment in fossil fuels, including:

- that taking money out of fossil fuels is not only a moral issue but just as much a financial issue;
- asking the Panel and Board to agree to explore what Pension Fund members actually think; and
- asking that the Responsible Investment sub-committee consider and report back on the points raised by Winchester Action on Climate Change in their response made to the Pension Fund's consultation on the draft Responsible Investment policy.

The Chairman thanked Chris Holloway for her deputation.

165. GOVERNANCE: RESPONSIBLE INVESTMENT POLICY

With the committee's approval this item was moved up the agenda to follow the deputation.

The Panel and Board received a report of the Director of Corporate Resources (Item 10 in the Minute Book) on proposed changes to the Pension Fund's Responsible Investment Policy. The Director reported that following the Panel and Board's approval a significant programme of consultation was undertaken with the Pension Fund's scheme members and employers over seven weeks.

The Director reported that only 29 responses were received, which was disappointing in the context that the Pension Fund has over 170,000 scheme members. Following the responses amendments were made to the draft policy to further clarify the ESG factors the Pension Fund requires its investment managers to consider and the different requirements for various asset class. There remains no requirement in the policy that the Pension Fund dis-invests from any particular company or sector, as the number of responses received did not constitute sufficient evidence that scheme members would support this.

The updated policy still proposes the formation of a Responsible Investment sub-committee, with four seats for County Councillors, one for scheme member representatives and one for employer representatives; mirroring the representation of the Panel and Board. It was proposed that appointments to the sub-committee be made at the next meeting of the Panel and Board.

RESOLVED:

- a) That the contents of the report including the consultation responses were noted.
- b) That the revised Responsible Investment Policy was approved.
- c) That the Terms of Reference for the Responsible Investment Sub-Committee were approved.
- d) That appointments to the Responsible Investment sub-committee be made at the Panel and Board's next meeting.

166. GOVERNANCE: PROPOSED CHANGES TO THE CURRENT GROUPING ARRANGEMENTS IN THE FUND

Mr Wood informed the committee that he had responded to the Pension Fund's consultation referred to in this item on behalf of his employer (Fareham Borough Council), which was noted, and in light of this, Mr Wood did not participate in the decision.

The Panel and Board received a report of the Director of Corporate Resources (Item 5 in the Minute Book) and presentation from the Pension Fund's actuary proposing changes to the Pension Fund's grouping mechanism for funding purposes. Changes have been proposed because the grouping arrangements

have been under strain for over a decade as employers have sought to make efficiencies through outsourcing, restructuring and creating trading companies. Whilst the Fund Actuary was able to accommodate these different approaches, it is increasingly difficult to sustain, and to justify, the grouped approach.

The Fund Actuary reported that the following changes to the Pension Fund's grouping mechanism were proposed to:

- disband the Scheduled Body Group at the 2019 valuation and,
- establish an academies pool for all academies and free schools covered by the Department for Education guarantee;
- establish a Town and Parish Council pool;
- allow any Town and Parish Council who elects to do so, to not be part of the Town and Parish Council pool, and to instead have an individual contribution rate;
- calculate an individual contribution rate for all the remaining scheduled body employers who are currently part of the Scheduled Bodies group;
- change the operation of the Admitted Body Group so that employers are allocated assets at an individual level to enable different deficit recovery periods to be used;
- remove the two employers currently in the Admitted Body Group who do not have a subsumption commitment from a local authority and instead calculate an individual rate for them;
- allow any employer with an individual rate to pre-pay contributions in return for a discount, under a methodology agreed with the fund actuary;
- allow any employer with an individual rate or an employer in the Town and Parish Council pool or the Admitted Body Group to pay additional contributions towards their deficit if desired.

These proposals were finalised following consultation with employers, the results of which were reported by the Director. An updated summary of the consultation responses was provided to the committee as in error the original excluded the response of Fareham Borough Council. The Fund Actuary reported that the 2019 triennial valuation provides an opportunity to make these structural changes because there has been a material improvement in the funding level since the last valuation.

RESOLVED:

- That having noted and considered the responses set out in Appendix 3 of the report, the proposed changes to the way in which employers are grouped for funding purposes, as set out in paragraph 7 of the report was approved.
- That authority was delegated to the Director of Corporate Resources to agree with the Fund Actuary the methodology for calculating the discount given to employers who pre-pay contributions.

167. ACCESS JOINT COMMITTEE MINUTES - 12 MARCH 2019

The Panel and Board received and noted the minutes of the ACCESS Joint Committee (Item 6 in the Minute Book) on 12 March 2019.

168. ACCESS BUSINESS PLAN

This item was deferred to the next meeting.

169. GOVERNANCE: ADMINISTRATION PERFORMANCE UPDATE

The Panel and Board considered the report from the Director of Corporate Resources (Item 8 in the Minute Book). The Director reported that Pension Services have performed well against the four key measures of good administration in 2018/19. There has been a dip in performance in the first part of 2019/20 due to much higher than anticipated number of member queries relating to the new partnership with West Sussex County Council, which was successfully launched in March 2019. However, performance was back on track by the second week in June and Pension Services are now delivering to the agreed service standards.

The Director also reported that the Ministry for Housing, Communities and Local Government has published a policy consultation setting out proposals to transition the local valuation cycle for the LGPS from triennial to quadrennial. The case for this change has not been made in the consultation document and therefore the Pension Fund's proposed response sets out the view that no change should be made to the timing of local LGPS valuations.

RESOLVED:

- a) That the strong performance of Pension Services in 2018/19 was noted and Pension Services were thanked for their hard work.
- b) That the proposed response to the valuation cycle and employer risk consultation was approved.

170. GOVERNANCE: PENSION FUND PANEL AND BOARD TRAINING IN 2019/20

This item was deferred to the next meeting.

171. GOVERNANCE: PENSION FUND RISK MANAGEMENT

The Panel and Board noted the report from the Director of Corporate Resources (Item 11 in the Minute Book) providing an update on the Pension Fund's risk management activity and the Fund's risk register, which forms part of its Annual Report. The Risk Register had been updated by improving the mitigation for employer risk to better take account of the Fund's Funding Strategy, and to add risks for investment pooling and contractual arrangements.

172. 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.

173. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 29 March 2019 were confirmed.

174. GOVERNANCE: GOOD GOVERNANCE CONSULTATION

This item was deferred to the next meeting.

175. INVESTMENT - INVESTMENT UPDATE

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 15 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF AN EXEMPT MINUTE]

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, 26th July, 2019

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

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

Employer Representatives (Co-opted members):

a Councillor J. Smith (Portsmouth City Council)
a Councillor T. Cartwright (Fareham Borough Council)
p Councillor S. Barnes-Andrews (Southampton City 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)
a 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.

176. APOLOGIES FOR ABSENCE

Councillors Cartwright, Dowden, Gibson and Glen and Mrs Arrowsmith and Mr Robbins sent their apologies.

177. 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.

178. CONFIRMATION OF MINUTES (NON-EXEMPT)

The minutes of the Pension Fund Panel and Board held on 12 July 2019 were confirmed.

179. DEPUTATIONS

There were no deputations.

180. CHAIRMAN'S ANNOUNCEMENTS

The Chairman informed the committee that he would be unable to attend the committee's next meeting in September 2019 and Cllr Thacker would chair the meeting.

181. GOVERNANCE: ANNUAL INTERNAL AUDIT REPORT AND OPINION 2018/19

The Panel and Board 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. 'Substantial Assurance' can be placed on Pension Services' framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice.

RESOLVED:

- (a) That the Chief Internal Auditor's annual report and opinion statement for 2018/19 was accepted.

182. GOVERNANCE: RESPONSIBLE INVESTMENT SUB-COMMITTEE APPOINTMENTS

The Panel and Board considered a report of the Director of Corporate Resources (item 7 in the Minute Book) following the approval of the Pension Fund's revised Responsible Investment Policy and creation of the Responsible Investment sub-committee that outlined the make-up of the committee.

RESOLVED:

- (a) That Cllrs Barnes-Andrews, Glen, Kemp-Gee, Latham, Tennent and Dr Allen were appointed to the Responsible Investment sub-committee.

183. GOVERNANCE: 2019 TRIENNIAL VALUATION

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 8 in the Minute Book) on the progress of the 2019 actuarial valuation. Work is underway for the current valuation which is as at 31 March 2019. Membership data will be supplied to the Fund Actuary by 26 July and initial whole of Fund results will be presented to the Panel and Board at their meeting on 27 September before being shared with employers at the Annual Employer meeting in October.

184. GOVERNANCE: ACCESS BUSINESS PLAN

The Panel and Board considered the report from the Director of Corporate Resources (Item 9 in the Minute Book) including the ACCESS Business Plan for 2019/20, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2019/20 was £1.2m of which Hampshire's equal share would be £109,000.

RESOLVED:

- (a) That the ACCESS Business Plan for 2019/20 was approved.

185. GOVERNANCE: ANNUAL REPORT 2018/19

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 10 in the Minute Book) containing the Pension Fund's Draft Annual Report, including the Pension Fund's Accounts for the year ending 31 March 2019. The Director highlighted to the committee the following new additions to this years annual report, including:

- the ACCESS pool's annual report,
- an update on progress with investment pooling, and
- updates to sections of the report including investment performance and the risk register to reflect the impact of pooling.

In finalising the report minor changes will be made, including but not limited to:

- updates to the attendance log to include substitute members when deputising for full members,
- changes to reflect the final version of the ACCESS pool's annual report,
- additional breakdown of leavers in the scheme administration report to show the number of ill-health leavers, and
- minor corrections of grammatical and formatting errors.

RESOLVED:

- (a) That the Annual Report for 2018/19 be approved for publication, and that the Director of Corporate Resources be authorised to make any necessary minor amendments prior to publication.

186. INVESTMENTS: PENSION FUND CASH - ANNUAL REPORT 2018/19

The Panel considered a report of the Director of Corporate Resources (Item 13 in the Minute Book) which summarised the activities of officers in managing the Pension Fund's cash balance during 2018/19. 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 2018/19 was £64m, 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 2018/19 the Pension Fund had improved its cashflow positive position from its dealings with members, with a surplus of £55m.

RESOLVED:

- a) That the outturn report on the Pension Fund's cash management in 2018/19 was approved.

187. GOVERNANCE: PENSION FUND PANEL AND BOARD TRAINING IN 2019/20

The Panel and Board considered a report of the Director of Corporate Resources (item 11 in the Minute Book) setting out the proposed training arrangements for members of the Pension Fund Panel and Board in 2019/20. In particular members noted the importance of training for Panel and Board members in their role in the governance of the Pension Fund and their regulatory responsibilities as Pension Committee and Board members. The Director presented a draft training plan which had been produced following the analysis of the committee members' completed Training Needs Analyses.

RESOLVED:

- (a) That the 2018/19 training programme was approved, noting that it may be adapted based on changing circumstances, and the remainder of the report was noted.

188. GOVERNANCE: PENSION FUND COSTS 2018/19

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 12 in the Minute Book) on the costs of managing the Pension Fund in the financial year 2018/19. 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. The Director highlighted to members the impact of investment pooling in terms of the reporting of costs in the Fund's Annual Report and the actual achievement of costs and savings, which to date have resulted in a small net deficit.

189. 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.

190. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 12 July 2019 were confirmed.

191. GOVERNANCE: PENSION FUND COSTS 2018/19 - EXEMPT APPENDIX

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 16 in the Minute Book) on the Pension Fund's costs [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

192. GOVERNANCE - PENSION FUND CASH ANNUAL REPORT 2018/19

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 17 in the Minute Book) on the Pension Fund's cash investments [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

193. **GOVERNANCE: GOOD GOVERNANCE CONSULTATION**

The Panel and Board received and noted an exempt appendix from the Director of Corporate Resources (Item 18 in the Minute Book) on the SAB's 'Good Governance' project [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

194. **INVESTMENTS: PROPERTY PORTFOLIO UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 19 in the Minute Book) updating the Panel and Board on the Fund's property portfolios. [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, 27th September, 2019

Chairman:

Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

C. Carter*	A. Joy*
A. Dowden	P. Latham*
A. Gibson	B. Tennent*
J. Glen*	T. Thacker* (Vice-chairman)
D. Mellor*	

Employer Representatives (Co-opted members):

Councillor T. Cartwright (Fareham Borough Council)
Councillor S. Barnes-Andrews* (Southampton City Council)
Mr D. Robbins* (Churchers College)

Scheme Member Representatives (Co-opted members):

Dr C. Allen* (pensioners' representative)
Mr N. Wood* (scheme members representative)
Mrs V. Arrowsmith* (deferred members' representative)
Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

C. Dobson

*present

195. APOLOGIES FOR ABSENCE

Cllrs Kemp-Gee, Gibson, Dowden, Cartwright, Ms Manchester and Mrs Dobson sent their apologies.

196. 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.

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

The minutes of the Pension Fund Panel and Board held on 26 July 2019 were confirmed.

198. **DEPUTATIONS**

There were no deputations.

199. **CHAIRMAN'S ANNOUNCEMENTS**

The Vice-chairman announced that Cllr Cartwright had stood down as the district council representative on the Panel and Board. The Hampshire and Isle of Wight Local Government Association will nominate a replacement.

The Chairman reminded the committee that ACCESS will hold its first investor day on 16 October and the Annual Employers Meeting on 18 October, both of which members were encouraged to attend.

200. **ACCESS JOINT COMMITTEE MINUTES 11 JUNE 2019**

The Panel and Board received and noted the minutes of the ACCESS Joint Committee meeting held on 11 June 2019 (item 6 in the Minute Book).

201. **MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE 3 SEPTEMBER 2019**

The Panel and Board considered the minutes of the Responsible Investment (RI) Sub-Committee held on 3 September 2019 (item 7 in the Minute Book). The minutes included recommendations from the sub-committee that the Panel and Board agrees to the Hampshire Pension Fund signing up to the UK Stewardship Code and UN Principles of Responsible Investment, which are the two major standards that enable investors to demonstrate their commitment to RI. Neither standard would mandate the Pension Fund to invest in a particular way and both already have signatories from other LGPS pension funds, pools and investment managers.

RESOLVED:

- a) That the minutes of the RI sub-committee from 3 September 2019 were noted.
- b) That the Panel and Board agrees that the Hampshire Pension Fund signs the UK Stewardship Code.
- c) That the Panel and Board agrees that the Hampshire Pension Fund signs the UN Principles of Responsible Investment.

202. **GOVERNANCE: PENSION ADMINISTRATION ISSUES**

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 8 in the Minute Book) on the implication of the McCloud judgement on the Pension Fund's 2019 triennial valuation and the proposed transfer from one of the Pension Fund's Additional Voluntary Contribution (AVC) providers Equitable Life.

Following the Treasury announcement in July that remedies relating to the McCloud judgement will need to be made in relation to all public service pension schemes, LGPS funds have to consider whether to include an amount for the cost of implementing the remedy in calculation of employer contributions at the 2019 valuation. The Fund Actuary has advised that in advance of the valuation, an amount for both McCloud and GMP equalisation should be taken into consideration in the calculation of the exit position for any employers who leave the Fund. Until a remedy is agreed, this amount will need to reflect a prudent estimate of the likely additional costs as once an employer has left the Fund, no further contributions can be certified for them.

The Funding Strategy Statement (FSS) will be updated to reflect the inclusion of an amount to cover both the McCloud remedy and the likely costs of GMP equalisation in the calculation of employer exits. However as the FSS will not be finalised until December (in line with the valuation timetable) in the interim, the Pension Fund Panel and Board are asked to approve the inclusion of an amount to cover the McCloud remedy and GMP equalisation for any employer exit calculated from 27 September 2019.

Equitable Life is one of the Fund's AVC providers, and has proposed a transfer of its business to Utmost Life and Pensions Ltd. As part of the proposal, with-profits AVC funds will receive a one off uplift but will lose their guaranteed amount. The transfer will only go ahead if a majority of policy holders vote in favour of the transfer, and the administering authority needs to cast its vote on behalf of its scheme members.

Based on information provided by Equitable Life scheme members holding with-profits policies could be better or worse off depending on investment returns. Scheme members without a with-profits policy would not be better or worse off under the proposal, and would simply see a change in provider. It is proposed that the Fund splits its vote in proportion to the preferences of scheme members who hold a with-profits AVC with Equitable Life.

RESOLVED:

- a) That approval is given to include an amount to cover the expected costs of the McCloud remedy and impact of GMP equalisation in the calculation of exit positions for employers leaving the Fund, as outlined in paragraph 12 of the report.
- b) That approval is given to the approach taken to determining the administering authority's vote on the proposed Equitable Life transfer.

- c) Authority is delegated to the Director of Corporate Resources to vote on the proposed Equitable Life transfer in accordance with the preferences indicated by scheme members.

203. 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.

204. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 26 July 2019 were confirmed.

205. 2019 ACTUARIAL VALUATION

The Panel and Board received a presentation from the Pension Fund's Actuary on the 2019 Actuarial Valuation (Item 11 in the Minute Book) [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

206. EXEMPT MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE 3 SEPTEMBER 2019

The Panel and Board considered the exempt minutes of the Responsible Investment (RI) Sub-Committee held on 3 September 2019 (item 12 in the Minute Book)

207. UPDATES TO THE RESPONSIBLE INVESTMENT POLICY

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 13 in the Minute Book) proposing clarification to the Fund's RI policy [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

208. INVESTMENT - INVESTMENT UPDATE

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

209. **INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 15 in the Minute Book) updating the Panel and Board on the Fund's alternative investment portfolios. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

Chairman,

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HAMPSHIRE COUNTY COUNCIL

Report

Panel:	Audit Committee
Date:	19 December 2019
Title:	Risk Management
Report From:	Director of Transformation and Governance – Corporate Services

Contact name: Peter Andrews, Head of Risk and Information Governance

Tel: 01962 847309 **Email:** peter.andrews@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to inform and update the Audit Committee on the key aspects of the County Council's risk management arrangements.
2. The County Council's arrangements for managing risk are important elements of its overall governance arrangements.
3. The County Council recognises that maintaining a dynamic risk aware culture is vitally important as it goes through a period of significant change, with the increasing need to balance the effects of budget reductions and changes to the ways services are provided. The financial challenges facing the County Council mean that it has needed to adopt positive strategies to risk taking, in order to maintain the resilience of its essential services through a period of change.
4. The County Council has had robust strategies for Risk Management for many years.

Recommendation

5. That the Committee notes the contents of this report and the risk management arrangements in place across the County Council.

Arrangements for the Management of Risk

6. Hampshire County Council recognises that we live in an uncertain world, where the people, environment and communities of Hampshire may be at risk. Risk Management is the framework by which the County Council can view, manage and respond to risk, both threats and opportunities, in a robust, systematic and documented way.
7. The County Council uses risk management to enhance strategic planning and prioritisation, assists in achieving objectives and strengthens the ability to be agile to respond to the challenges faced.
8. The County Council has successfully embedded risk management into many of its business as usual practices and is undertaking an unprecedented programme of change. It has been successful to date, partly because it has taken a proactive and dynamic approach to managing risk.
9. The County Council is clear that it wants its risk management to: deliver the capacity across the organisation to be more confident with risk so that it can use it to deliver the outcomes it needs – even if that means taking more, managed risk.
10. The County Council takes a pro-active approach to its business risk; in order to take acceptable risk. The County Council believes that risk needs to be managed rather than avoided and that its response to risk is proportionate.
11. Risk is most effectively managed where it occurs. Operational risk management is focused at the front line of service delivery (for example, the safeguarding of vulnerable social care clients). At a strategic level, departmental management teams, the Risk Management Board and individual programme delivery boards have responsibilities to manage and monitor risk.
12. Departments are responsible for identifying, evaluating, and managing their own risks. Operational risks are managed locally through a series of risk assessments and risk-based approaches. Each Department maintains a strategic risk register, as well as managing risks to project and programme delivery through robust project management processes.
13. Consideration of risk performs a key role within the major transformational programmes the Council is delivering. It could be argued that each of the transformational strands addresses key risk factors in themselves. Within each project, risk is considered and appropriately managed as part of the Council's approach to project management.

14. In addition, risk is considered and presented to Members as part of the reports that authorise significant projects or activity and included in progress reports on the Council's major change programmes.

Corporate Risk Register

15. In accordance with best practice, the County Council maintains a Corporate Risk Register. This identifies and outlines how key strategic risks faced by the County Council are managed. It is a dynamic document, with the risks identified changing in accordance with the risk environment facing the County Council at any one time.
16. It articulates and consolidates the risk management activity that is being undertaken to mitigate the key strategic risks that the County Council faces, i.e. those risks which, by their impact severity may affect more than one Department.
17. The key risks are identified by Chief Officers, with the assistance of the County Council's Risk Management Board and focus on the County Council's financial and organisational resilience, as well as key service responsibilities. Individual risks are evaluated using the County Council's risk management assessment tool. This assesses risks from the perspective of a quantified scale of impact and likelihood to calculate a total risk evaluation.
18. Each risk has an allocated risk owner, the Chief Officer of the area concerned, who actively manages the risk. The level of risk and associated controls are also kept under close review by the County Council's Risk Management Board. This has representatives from each Department at a senior level and is chaired by the Director of Transformation and Governance.
19. It is important to bear in mind that the risks outlined in a risk register are estimated future outcomes. They represent areas of uncertainty rather than scenarios that are currently occurring.
20. The Risk Management Board has responsibility for co-ordinating the County Council's risk management, health and safety, resilience and information governance activities and actively monitors both the Corporate Risk Register and departmental strategic risk registers.
21. Risks are considered for entry onto the Corporate Risk Register by the Risk Management Board, these may be as a result of horizon scanning of risk by the Board, where those risks may be of a cross cutting nature or may be as a result of escalating risks from departmental registers.

22. A copy of the County Council's Corporate Risk Register is contained in the confidential appendix to this report (Appendix 1).
23. The County Council takes a proportionate approach to controlling risk. Proportionate controls to mitigate each risk are identified, implemented and monitored.
24. There are basically 4 approaches to controlling risk:
- Treat (or reduce) – put procedures and controls in place to reduce the chance of a loss happening, or the frequency of a loss, or the severity of the incident; or formulating a contingency plan to reduce interruption to services, new internal systems and practices, staff training, physical risk improvements, continued assessment & monitoring
 - Tolerate (or accept) – decide to bear losses out of normal operating costs, informed decision to retain risk, monitor situation
 - Transfer – place indemnity clauses in a contract, insurance cover, outsource services.
 - Terminate (or avoid) – stop doing the activity or find a different way of doing it, introduce alternative systems/practices.
25. The County Council's Corporate Risk Register recognises that although significant controls may be in place, the risk may remain "high" due to factors that are outside the County Council's control.
26. The Risk Management Board is in the process of reviewing the County Council's approach to risk management and its strategic risk registers. This includes a review of the County Councils Risk Management Strategy and risk assessment process, and refresh of Departmental Risk Registers.
27. The County Councils risk management arrangements are supported by its IT Disaster Recovery arrangements and its Resilience framework. A suite of business continuity plans is in place across County Council services. A major test of the County Councils business continuity arrangements was undertaken on 6 February 2019.
28. This approach to risk management has served the County Council well to date. This is evidenced by the performance of key services to vulnerable people, as validated by external regulatory bodies such as Ofsted and CQC. The County Council's financial stewardship through a period of unprecedented challenge, and its successful delivery of successive cost saving transformational programmes is also validation of its risk management approach.

Consultation and Equalities

- 29. As this is a briefing paper with no changes recommended, consultation is not required.
- 30. As this is a briefing paper with no changes recommended, no impact has been identified to groups with protected characteristics.

Conclusion

- 31. The Council's risk management arrangements are designed to support an environment in which risk taking, innovation and exploitation of opportunities are encouraged within a well-managed environment, where risks are identified, and appropriate mitigation measures are taken.
- 32. Through a series of operational and strategic risk registers, held at departmental and corporate level the County Council identifies, evaluates, mitigates and monitors its key risks.
- 33. Oversight of the strategic risk registers is undertaken by the Risk Management Board, which actively monitors Department and Corporate Risk Registers.
- 34. External and internal measures indicate that these risk management arrangements are serving the County Council well.

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:	yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Other Significant Links

Links to previous Member decisions:	
<u>Title</u> Strategy and Policy for Risk Management and Health and Safety	<u>Date</u> 27.06.11
Key Aspects of Risk Management Strategy and associated Improvement Plan	26.06.14
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

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

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

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of the Local Government Act 1972.

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