Public Document Pack

Hampshire County Council

NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Thursday, 4th March, 2021 at 2.00 pm
Place	Virtual Teams Meeting - Microsoft Teams
Enquiries to	members.services@hants.gov.uk

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

FILMING AND BROADCAST NOTIFICATION
This meeting is being held remotely and will be recorded and broadcast live via the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. MINUTES OF PREVIOUS MEETING HELD ON 17 DECEMBER 2020 (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. **ANNUAL EXTERNAL AUDIT LETTER FOR THE YEAR ENDING 31 MARCH 2020 - HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND** (Pages 17 - 46)

To receive the Annual External Audit Letter for the year ending 31 March 2020, in respect of both Hampshire County Council and Hampshire Pension Fund.

8. **TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22 TO 2023/24** (Pages 47 - 72)

To receive a report of the Deputy Chief Executive and Director of Corporate Resources presenting the Treasury Management Strategy Statement for 2021/22 to 2023/24.

9. **POLICY UPDATE - WHISTLE-BLOWING POLICY** (Pages 73 - 82)

To receive a report of the Deputy Chief Executive and Director of Corporate Resources detailing updates to the Whistle-Blowing Policy.

10. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 4 DECEMBER 2020 (LESS EXEMPT)** (Pages 83 - 94)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 4 December 2020.

11. EXCLUSION OF THE PRESS AND PUBLIC

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

12. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 4 DECEMBER 2020 (EXEMPT) (Pages 95 - 102)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 4 December 2020.

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 observe the public sessions of the meeting via the webcast.

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AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL held at the castle, Winchester on Thursday, 17th December, 2020

Chairman:
* Councillor Keith Evans

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

*Present

193. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Mark Kemp-Gee and Rob Mocatta. Councillors Zilliah Brooks and Stephen Philpott were in attendance as the Conservative substitutes.

194. **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 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.

No declarations were made at this point in the meeting.

195. **MINUTES OF PREVIOUS MEETING HELD ON 30 SEPTEMBER 2020**

The minutes of the meeting held on 30 September 2020 were agreed as a correct record.

An update was heard from the Deputy Chief Executive and Director of Corporate Resources regarding the external audit of the Statement of Accounts for the year ending March 2020. It was heard that the audit sign off had been delayed beyond November 2020, to allow for the production of a detailed cash-flow forecast to March 2022. It was heard from the external auditor that the cash-flow forecast had been received during December and the accounts were expected to be signed off early in the new year.

In response to Members questions it was heard that the requirement for a cash-flow forecast was introduced this year as a result of the impact of the Covid-19 pandemic, and consideration was being undertaken by the external auditors as to whether this would become an ongoing element of the annual audit.

196. DEPUTATIONS

No questions or deputations were received by the Committee on this occasion.

197. CHAIRMAN'S ANNOUNCEMENTS

There were no announcements.

198. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS

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

It was heard that surveillance powers had been used once during the first two quarters of the year. It was noted that this related to 18 individual queries under one application, and that the application, linked to rogue trading, had been seeking the identity of the user of multiple websites and or email accounts

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

199. INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report of the Deputy Chief Executive and the Director of Corporate Resources with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan.

Members heard that:

- The Covid-19 pandemic had an impact on closing the 2019/20 internal audit work, however significant progress had been made during Q2/3 to bring these actions up to date.
- 72% of reviews within the 2020/21 plan were either completed or in progress, with confidence that all actions would be completed by the end of the year.
- The External Quality Assessment provided a credible benchmark against both public and private sector providers of internal audit, with the County Council being assessed as excellent in three areas and good in a further two. Potential improvement opportunities were identified through the report to support the Council to achieve an excellent rating across all areas. An action plan had been presented to the key stakeholder board who would monitor progress.

In response to Members questions it was heard that:

- Reasonable had been used in replacement of the former qualification of adequate, in line with the updated CIPFA narrative, which had allowed assurance levels to be standardised across organisations. It was suggested by Members that a narrative for all qualifications be included within the report.
- There had been a positive direction in respect of overdue actions with significantly fewer than had been seen in previous years and that they had remained at a very low level despite the challenges faced this year, as a result of the pandemic.
- There was not anticipated to be an impact on the delivery of the internal audit resulting from any future peaks in the pandemic, due to the size of the audit function providing sufficient resilience and the success of the remote working procedures adopted since the outbreak.

The Chairman observed that the report provided assurance that the County Council were following procedures well.

RESOLVED
That the Audit Committee notes the Internal Progress Report (November 2020) and the External Quality Assessment Report – September 2020.

200. **TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 2020/21**

The Committee considered a report of the Deputy Chief Executive and Director of Corporate Resources on the Treasury Management mid-year monitoring for 2020/21.

Members heard that:

- Interest rates had remained low, impacted by both uncertainty around the Brexit transition as well as the global pandemic. As a result of additional risks identified in the market, Arlingclose had recommended that the County Council reduced the number of counterparties it would offer to lend to and investment durations on some types of investments.
- Upon advice from Arlingclose, fixed bonds from the higher yielding strategy had been sold at a gain of about £3m and the proceeds were being reinvested in pooled funds to increase diversification.
- The County Council's governance allowed it to invest at negative interest rates if necessary.
- Pooled investments were showing a capital loss of about £10m on paper, which was an improvement of about £8m since year end. Members heard that potential losses would only be realised if investments were sold and the Council did not intend to sell these investments.
- Asset values had continued to be volatile but in aggregate the Council had seen an improvement since year end. The investments were providing an income return much greater than cash and continued to be recommended by Arlingclose.

- Whilst it was recognised that the County Council was operating in a challenging environment, the benchmarking demonstrated that the approach taken in managing cash during the period had been positive.

In response to Members questions it was heard that the weighted average maturity days for the County Council's internally managed investments was 608 days, compared with 18 days across all local authorities. This resulted from the size of the Council's investment balances, allowing the County Council to invest for longer durations. It was heard this was regarded as a positive measure, but needed to be balanced to ensure that funds were accessible if needed.

RESOLVED
The Audit Committee note the recommendation being reported to Cabinet to approve the mid-year report on treasury management activity and note the action to be taken should we encounter negative interest rates.

201. **POLICY UPDATES: ANTI-BRIBERY POLICY; ANTI-FRAUD AND CORRUPTION STRATEGY AND WHISTLE-BLOWING POLICY**

Members received a report of the Deputy Chief Executive and Director of Corporate Resources outlining updates to the Anti-Bribery Policy; Anti-Fraud and Corruption Strategy and Whistle-Blowing Policy.

Members were advised that the policies were normally reviewed and reported to the Audit Committee bi-annually, with additional updates during that period when required. It was heard that no changes were required at this review, other than to assign ownership of the anti-bribery and anti-fraud and corruption policies to finance from internal audit, which was deemed more appropriate, with the whistle-blowing policy remaining with human resources.

In response to Members questions it was heard that under the whistle-blowing policy, individuals were encouraged to report concerns, with their details kept confidential where appropriate, and kept informed of the outcomes of investigations, which would include a note of lessons learned to be adopted across the organisation.

The Committee suggested that an overview of the whistle-blowing policy and practice be provided at a future session of the Members Briefing programme.

RESOLVED
That the Audit Committee note the refreshed policy documents, which will be subject to a two-year review cycle.

202. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETINGS - 24 JULY 2020, 25 SEPTEMBER 2020 AND 20 NOVEMBER 2020 (LESS EXEMPT)**

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 24 July 2020, 25 September 2020 and 20 November 2020.

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

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

204. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETINGS - 24 JULY 2020, 25 SEPTEMBER 2020 AND 20 NOVEMBER 2020 (EXEMPT)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 24 July 2020, 25 September 2020 and 20 November 2020.

Chairman,

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	4 March 2021
Title:	Information Compliance – Use of Regulated Investigatory Powers
Report From:	Director of Transformation and Governance

Contact name: Peter Andrews

Tel: 0370 779 1365 **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 disproportionally 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 2020 – 1 January 2021)

Direct Surveillance			
	Purpose of Surveillance		
2020-21 Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4			
Total -	**0**	**0**	**0**
Covert Human Intelligence Source (CHIS)			
	Purpose of Surveillance		
Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4			
Total -	**0**	**0**	**0**

Communications Data			
Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	0	0	N/A
2	1	18	Doorstep Crime – Rogue Trading
3	1	10	Doorstep Crime
4			
Total -	**0**	**0**	

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

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	4 March 2021
Title:	Annual Audit Letter for the year ending 31 March 2020 - Hampshire County Council and Hampshire Pension Fund.
Report From:	Ernst and Young LLP (external auditors)

Contact name: Sarah Croft

Tel: 02380 382000 **Email:** scroft@uk.ey.com

Purpose of this Report

1. The purpose of this report is to present to the Audit Committee the Annual Audit Letter for the year ending 31 March 2020, in respect of both Hampshire County Council and Hampshire Pension Fund.

Recommendation

2. That the Audit Committee receives and notes the Annual Audit Letter for the year ending 31 March 2020.

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.)

<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 disproportionally low.

2. **Equalities Impact Assessment:**

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

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Hampshire County Council & Hampshire Pension Fund

Annual Audit Letter for the year ended 31 March 2020

February 2021

Building a better working world

Contents

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

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

The ‘Terms of Appointment (updated April 2018)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary

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Executive Summary

We are required to issue an annual audit letter to Hampshire County Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final accounts from 31 July to 30 November 2020 for all relevant authorities.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's property valuers. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment, and a significant risk for the valuation of investment properties.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
► Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: • Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and • Agreed IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	On 29 January 2021 we issued unqualified opinions. The financial statements give a true and fair view of the financial position of the Council and the Pension Fund as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We have substantially completed the work required by the NAO. There have been some national technical issues identified with the new NAO WGA tool and as a result there has been an extension to the submission deadline.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We presented our Audit Results Reports on the Council and the Pension Fund to the Audit Committee on 30 September 2020. We updated our reports and provided these on 28 January 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We will issue our audit completion certificate as soon as we have submitted the WGA. We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Hampshire County Council. The Local Government Pension Scheme Regulations required authorities to publish the Pension Fund Annual Report by 1 December 2020. On 29 January 2021 we issued an opinion that stated the Pension Fund Annual Report was consistent with the audited Pension Fund financial statements.

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

Kevin Suter
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter
The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 30 September 2020 Audit Committee, updated on 28 January 2021, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work was undertaken in accordance with the Audit Plans presented on 20 February 2020, and the Updated Audit Plans that we presented on 23 July 2020 to outline the impact of the Covid-19 pandemic on the audit.

Our initial findings were communicated through the audit results report we presented on 30 September 2020. Our audit was conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors, we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. We have substantially completed the WGA review and will submit in line with the revised NAO timetable.

Responsibilities of the Council

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

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

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council and Pension Fund Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 January 2021.

Our preliminary findings were reported to the 30 September 2020 Audit Committee. The key issues identified as part of our audit were as follows.

Significant risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Audit Committee.
Incorrect capitalisation of revenue expenditure	We did not identify any matters to report to the Audit Committee.
Investment Property Valuation	Our work identified a misstatement in the sampled properties of £2.5 million, and in addition we noted an error in our representative sample which we extrapolated to give a projected misstatement of £4.8 million.

Other audit risks on the Council audit

Valuation of land & buildings: We have noted two audit differences in respect of valuation of land and buildings which have not been corrected by management. These were a judgemental valuation difference, and a projected difference in the assessment of assets not revalued during the year. The net impact of the projected misstatement would increase the value of assets by £16.6 million.

Pension liability – We are satisfied that the actuary has taken into consideration the impacts of McCloud and that the impacts of 'Goodwin' would not be material for HCC. The results of the work performed by the Pension Fund audit noted a difference in Hampshire County Council's share of the Pension Fund assets of £12.5 million. Management have chosen not to adjust this misstatement.

Going concern – The Council has assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made an appropriate disclosure in the statements.

Private Finance Initiatives - We engaged internal experts to perform a review of the streetlighting PFI Model – a difference was noted in the model used which resulted in a classification difference of £16 million between headings within the Comprehensive Income & Expenditure Statement, and a net balance sheet impact of £0.674 million.

Financial Statement Audit (cont'd)

Key Issues

Pension Fund

Significant risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Audit Committee.
Valuation of pooled property investments and freehold & leasehold properties (level 3)	Covid-19 had an impact on the valuation of some investments. The Fund reclassified its pooled property investments from level 2 (where some relevant, reliable market evidence would be available) to level 3 (where such information was more difficult to obtain). The information that the Fund used to support the valuation of the pooled property included valuation reports where the valuer had included a material uncertainty caveat on valuations at 31 March 2020 because of the impact of Covid-19. We have no findings to report to the Audit Committee regarding the valuations, but the uncertainties relating to valuations of the underlying property assets were included in and emphasis of matter paragraph within our audit report to draw the readers attention to these issues that were properly disclosed in the Pension Fund accounts.
Valuation of Alternative Investments (Level 3)	Using our expectations of market movements, we raised a projected misstatement of £20.8m. We think management's reduction of the investment values due to Covid-19 has been over-stated, meaning an understatement of the value of those assets in the accounts.

Other audit risks on the Pension Fund audit

Going concern – the Pension Fund has assessed the impact of Covid-19 on its cash and asset position into 2020/21 and 2021/22 and made an appropriate disclosure in the statements.

Valuation of level 2 investments – we found no issues arising from the valuation of level 2 assets. We note that pooled property funds had been appropriately reclassified from level 2 to level 3.

Financial Statement Audit (cont'd)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £39.9m (2018/19: £39.2m), which is 1.8% of gross expenditure reported in the accounts adjusted for revaluation losses, but including pension interest costs, payments of precepts and investment property running costs. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. The planning materiality figure for the Pension Fund was £71.8m (2018/19: £72m)
Reporting threshold	We communicated to the Audit Committee that we would report to them all audit differences in excess of £1.9m (2018/19: £1.9m). The equivalent reporting figure for the Pension Fund was £3.6m (2018/19: £3.6m)

Materiality	HCC	HPF
Planning	£39.9m	£71.8m
Performance	£29.9m	£53.9m
Reporting	£1.9m	£3.6m

Section 4

Value for Money

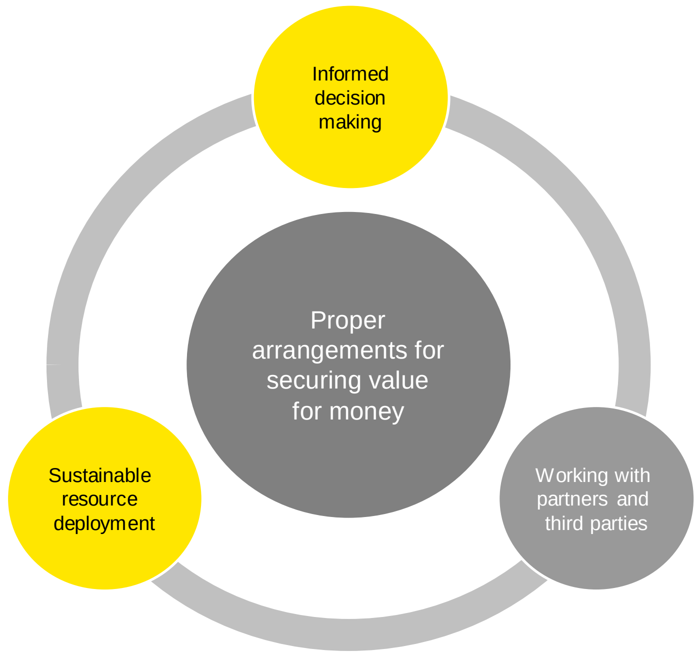
Value for Money

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

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

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.



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

We therefore issued an unqualified value for money conclusion on 29 January 2021

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We are in the process of concluding our work on the WGA consolidation pack. There have been some technical issues with the new submission tool and as a result the NAO have extended the deadline, advising auditors not to finalise the submission until all issues are resolved.

Annual Governance Statement

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

We completed this work and did not identify any areas of concern.

Report in the Public Interest

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

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

Written Recommendations

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

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

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 30 September 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

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

We have adopted a mainly substantive audit approach. We relied on the ISAE 3402 report on the Integrated Business Centre in respect of the operation of controls over Accounts Payable, Accounts Receivable and Cash.

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

Section 6

Focused on your future

Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on the Council is summarised in the table below.

Council responsibilities for value for money
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal. As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities under the new Code
Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. The specified reporting criteria are: • Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services. • Governance - How the Council ensures that it makes informed decisions and properly manages its risks. • Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services. Continued

Focused on your future

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

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

Standard	Issue	Impact
IFRS 16 Leases	It was proposed that IFRS 16 (Leases) would be applicable for local authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. In response to the ongoing pandemic and its pressures on council finance teams, CIPFA announced that the implementation will be deferred until the 2022-23 financial year. CIPFA has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness.	There are transitional arrangements within the standard and It is assumed this will be reflected in the 2021/22 Accounting Code of Practice for Local Authorities when published. CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented, and use the extension to ensure it is ready for the standard's application.

Section 7

Audit Fees

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Audit Fees – Hampshire County Council

Our base fee for 2019/20 is in line with the scale fee set by the PSAA

Description	Scale Fee as set by PSAA 2019/20 £	Additional Fee Proposal 2019/20 £	Final Fee 2018/19 £
Initial Audit Fee – Code work	89,720		91,570
Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 25)	N/A	39,246	N/A
Proposed Revised Scale Fee	89,720	39,426	91,570
Scale fee variation:			
Additional work required for Covid-19 considerations and Going Concern (see Note 1)		12,920	
Additional work required for significant risk on PPE valuation, IP Valuation (see Note 2)		8,780	
Work required for other inherent risks areas (see Note 3)		4,743	
Total Proposed Audit Fee	89,720	65,689	91,570
Non- Audit Work (ISAE 3402 report on the Integrated Business Centre)		56,500	43,000

Note 1: We have quantified the additional work we have undertaken during 2019/20 as a result of Covid19, going concern and resulting consultation processes.

Note 2: We have quantified the additional work completed during 2019/20 for the significant risk on Investment Property Valuation including use of internal specialists, and the additional impact of Covid-19 on property, plant and equipment valuations.

Note 3: We have quantified the additional work completed during 2019/20 over the IAS 19 valuation and PFI, including the use of internal specialists and work performed by the Pension Fund Auditor.

We have discussed these with the Deputy Chief Executive (Section 151 Officer) and provided further breakdown of each of the figures. We did not reach agreement and therefore we will be seeking PSAA approval.

Audit Fees – Hampshire Pension Fund

Our base fee for 2019/20 is in line with the scale fee set by the PSAA

Description	Scale Fee as set by PSAA 2019/20 £	Additional Fee Proposal 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work (NB scale fee = planned fee for 2019/20)	24,442		24,442
Changes in work required to address professional and regulatory requirements and scope associated with risk (See page 25)	N/A	31,738	N/A
Proposed Revised Scale Fee	24,442	31,738	24,442
Scale fee variation:			
Additional work required for Covid-19 considerations and Going Concern (see Note 1)		8,045	
Additional work required for significant risks over valuation of investment portfolio and valuation of complex investments (see Note 2)		4,585	
Additional work required for other inherent risks areas (see Note 3)		2,708	
Total Proposed Audit Fee	24,442	47,076	24,442

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Note 1: We have quantified the additional work we have undertaken during 2019/20 as a result of Covid19, going concern and resulting consultation processes.

Note 2: We have quantified the additional work completed during 2019/20 for significant risk on valuation of investment portfolio and the Valuation of complex investments including use of internal specialists.

Note 3: We have quantified the additional work completed during 2019/20 for over L2 and other level investments including use of internal specialists.

We have discussed these with the Deputy Chief Executive and provided further breakdown of each of the figures. We did not reach agreement and therefore we will be seeking PSAA approval.

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Audit Fees (cont'd)

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees (PSAA fee consultation), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond (Redmond Review) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements. For pension fund we evaluated particularly the values and types of investment assets.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management in May 2020 (delayed from March 2020 due to the impact of the coronavirus pandemic)

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us, although we did not reach agreement

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HAMPSHIRE COUNTY COUNCIL

Report

Committee:	Audit Committee
Date:	4 March 2021
Title:	Treasury Management Strategy Statement 2021/22 to 2023/24
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Rob Sarfas

Tel: 0370 779 1556 **Email:** rob.sarfas@hants.gov.uk

Purpose of the report

1. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 (the CIPFA Code) requires authorities to determine their Treasury Management Strategy Statement (TMSS) before the start of each financial year.

2. This Strategy fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. The purpose of this report is therefore to present the Treasury Management Strategy Statement for 2021/22 to 2023/24. This includes the Annual Investment Strategy for 2021/22.

Recommendations

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

- That the Treasury Management Strategy for 2021/22 (and the remainder of 2020/21) be approved.
- That an increase to the allocation targeting higher yields from £235m to £250m partly to reflect the investments taken out on behalf of Thames Basin Heath and to provide extra flexibility given the added risk of negative interest rates at the short term end of the market be approved.
- That authority is delegated to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

Introduction

5. In 2018 the Ministry of Housing, Communities & Local Government (MHCLG) produced new Investment Guidance including the requirement to produce an Investment Strategy.

6. The County Council's Capital and Investment Strategy sets out the Council's broad approach to investment, including its capital programme, how this is funded, and investments held for service purposes or for commercial profit (as reported to Cabinet and County Council in the Revenue Budget and Precept 2021/22 report on 9 February 2021 and 25 February 2021 respectively).

7. This Treasury Management Strategy (TMS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.

8. 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 financial risk are therefore central to the County Council's prudent financial management.

9. Treasury risk management at the County Council is conducted within the framework of the CIPFA Code which requires the County Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This Strategy fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

10. Investments held for service purposes or for commercial profit are considered separately in the Capital and Investment Strategy.

External Context

11. The following paragraphs explain the economic and financial background against which the TMS is being set.

Economic background

12. The impact of the coronavirus pandemic and the UK's exit from the European Union will continue to be a major influence on the County Council's treasury management strategy for 2021/22.

13. The Bank of England's (BoE) Monetary Policy Committee (MPC) met in December 2020 and voted unanimously to hold Bank Rate at 0.10% and to maintain its Quantitative Easing asset purchase programme at £895m. The MPC identified that the successful trialling of some Covid-19 vaccines was likely to reduce the downside risks to the economic outlook, but that economic activity had been affected by the increase in Covid-19 cases and reimposition of restrictions resulting in an unusually uncertain outlook for the economy, an outlook that will have been further affected by the subsequent national lockdown in January 2021.

14. Gross Domestic Product (GDP) grew by 16.0% in Quarter 3 after suffering a fall of 18.8% in the previous quarter, reflecting the easing of restrictions throughout the summer of 2020, although this had already slowed to 1.1% in September and 0.4% in October, leaving it 8% below its level in Quarter 4 of 2019.

15. UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month and well below the BoE's target of 2%.

16. The most recent labour market data for the three months to October 2020 showed the unemployment rate was 4.9%, up 0.7% on the previous quarter. The government's employment support schemes may limit near term rises in unemployment, but the BoE predicts a substantial further increase is still likely. The employment rate fell to 72.5% in October and the 3-month average annual growth rate for wages was 2.1% for regular pay in real terms.

Credit outlook

17. After spiking in late March 2020 due to the onset of the global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Bank profitability in 2020 is likely to be significantly lower than in previous years as a result of significant provisions for potential losses resulting from the pandemic.

18. The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

19. Looking forward, there remains the potential risk for bank losses to be greater than expected when government and central bank support starts to be removed and Arlingclose therefore advises a cautious approach to bank deposits in 2021/22.

Interest rate forecast

20. The Council's treasury management adviser Arlingclose is forecasting that the Bank Rate will remain at 0.10% until at least the end of 2023. Downside risks remain, however, and may be heightened in the short term as the UK reacts to the escalation in coronavirus infection rates and the end of the Brexit transition period, therefore cuts to 0% or even into negative territory cannot be completely ruled out.

21. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

Balance Sheet Summary and Forecast

22. On 31 December 2020, the County Council held £306m of borrowing and £482m of investments. This is set out in further detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1:

Table 1: Balance sheet summary and forecast

	31/03/20 Actual £m	**31/03/21 Estimate £m**	**31/03/22 Forecast £m**	**31/03/23 Forecast £m**	**31/03/24 Forecast £m**
Capital Financing Requirement	783	800	805	774	752
Less: Other Long-term Liabilities					
- Street Lighting PFI	(100)	(96)	(91)	(86)	(81)
- Waste Management Contract	(49)	(46)	(42)	(38)	(34)
Borrowing CFR	**634**	**658**	**672**	**650**	**637**
Less: External Borrowing					
- Public Works Loan Board	(229)	(218)	(208)	(200)	(192)
- Other Loans (incl. LOBOs)	(45)	(41)	(41)	(41)	(41)
- Other Short-term Borrowing	(33)	(33)	(33)	(33)	(33)
Internal Borrowing	**327**	**366**	**390**	**376**	**371**
Less: Reserves and Balances	(643)	(641)	(647)	(615)	(615)
Less: Allowance for Working Capital	(227)	(79)	(154)	(230)	(230)
Resources for Investment	**(870)**	**(720)**	**(801)**	**(845)**	**(845)**
(Treasury Investments) / New Borrowing	**(543)**	**(354)**	**(411)**	**(469)**	**(474)**

23. 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. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

24. It is forecast that the County Council will continue to take advantage of internal borrowing, which will increase through until 2021/22, whilst paying off Public Works Loan Board (PWLB) debt as maturities arise.

25. Reserves and balances are due to reduce over the forecast period due to the anticipated funding of the Capital Programme and use of the Budget Bridging Reserve (BBR). The County Council's investment balances are however due to rise over the forecast period, as shown in Table 1. This is because the County Council's employer's LGPS pension contributions were paid early in April 2020 for the period to March 2023.

26. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the County Council expects to comply with this recommendation during 2021/22.

Borrowing Strategy

27. The County Council currently holds £305.6m of loans including amounts held on behalf of others for governance or administrative purposes. The loans are predominantly as a result of the County Council's strategy for funding previous years' Capital Programmes. The balance sheet forecast in Table 1 shows that the County Council does not expect to need to take on new external borrowing in 2021/22. The County Council has the option to borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £980m, but does not currently expect to do so.

Objectives

28. The County Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the County Council's long-term plans change is a secondary objective.

Strategy

29. Given the significant cuts to public expenditure and in particular to local government funding, the County Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, the County Council expects to continue its approach of internally borrowing instead of taking on additional external borrowing.

30. By internally borrowing, the County Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Arlingclose will assist the County Council in regularly monitoring the benefits of this approach against taking on short term external borrowing and the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

31. The County Council has previously raised the majority of its long-term borrowing from the PWLB. The County Council does not expect to take on any new long-term borrowing in 2021/22, however alternatives to the PWLB should the County Council need to borrow any long-term amounts include banks, pension funds, and local authorities, as well as the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. A further alternative to internal borrowing would be for the County Council to use short term borrowing if necessary. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield, however the County Council intends to avoid this activity.

32. The County Council may also arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

33. In addition, the County Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

Sources

34. The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments (see below).

- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body.
- UK public and private sector pension funds (except Hampshire Pension Fund).
- Capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

Other sources of debt finance

35. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing.
- Hire purchase.
- Private Finance Initiative (PFI).
- Sale and leaseback.

LOBOs

36. 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 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.

37. All of these loans have options during 2021/22, and although the County Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The County Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to the current level of £20m.

Short-term and variable rate loans

38. These loans leave the Council exposed to the risk of short-term interest rate rises. This risk is monitored through the indicator on interest rate exposure in the treasury management indicators in this report.

Debt rescheduling

39. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The County Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

40. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the County Council's investment balance has ranged between £335m and £648m.

41. These balances have been lower than the County Council would typically hold due to the decision to pay employer's LGPS pension contributions in advance on 1 April 2020 for the three year period to March 2023 at a cost of approximately £225m. This payment was made without impacting liquidity and with the additional benefit of reducing counterparty risk.

Objectives

42. The CIPFA Code requires the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Negative interest rates

43. The coronavirus pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options, and in some instances negative interest rates are already being seen. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

44. Given the increasing risk and very low returns from short-term unsecured bank investments, the County Council aims to continue to hold a diversified investment portfolio, including investments in more secure and/or higher yielding asset classes during 2021/22. This is especially the case for the estimated £350m that is available for longer-term investment.

45. Approximately 82% of the County Council's cash as at 31 December 2020 was invested so that it was not subject to bail-in risk, as it was invested in local authorities, secured bank bonds and pooled property, equity and multi-asset funds.

46. Of the 18% of cash that was subject to bail-in risk at 31 December 2020, 23% was held in very short-term notice accounts providing a comparatively favourable rate of interest in exchange for a short notice period within the 35-day maximum recommended by Arlingclose, 49% was held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in, and 28% was held in overnight bank call accounts for liquidity purposes. This diversification is a continuation of the strategy adopted in 2015/16. Further detail is provided at Annex B.

Business models

47. Under the new IFRS 9, the accounting for certain investments depends on the 'business model' for managing them. The County Council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Investments targeting higher returns

48. The County Council agreed in 2019 to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. As set out in the Capital and Investment Strategy, it is now felt appropriate to increase this to £250m.

49. The CIPFA Code requires the County Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the County Council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an

asset for liquidity purposes, helping to ensure the long-term security of the County Council’s investments.

50. Higher yields can be targeted through longer term cash investments and by investing in asset classes other than cash. Following advice from Arlingclose, the County Council has constructed an investment portfolio that is diversified across asset classes and regions. This has been achieved by investing in pooled investment vehicles (pooled funds) alongside long term lending to other local authorities and loans relating to the Manydown development project. This diversification helps to mitigate the risk of overexposure to a single event affecting a specific asset class.

51. The use of pooled funds also enables the County Council to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

52. Diversification in itself does not guarantee positive outcomes. The selection of pooled funds is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the County Council’s aim of achieving income returns of around 4% per annum (pa) without putting its initial investment at undue risk over the longer term. The County Council is therefore currently invested in pooled funds that specialise in providing income returns to support the revenue budget. As a result of their income focus these funds may not achieve the same capital growth and therefore total return, as other more general investment funds, however they are likely to deliver significantly greater income returns than cash investments, particularly in the current interest rate environment.

53. The investible universe for pooled funds is vast and part of the service provided by Arlingclose as treasury advisors is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.

54. Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The County Council will therefore continue to conduct its own ongoing review and scrutiny of the performance of its pooled fund investments. The County Council will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy and process.

55. Just over £200m of the allocation to higher yielding investments has now been invested, with the remaining balance earmarked. The total amount invested includes £6m invested on behalf of the Thames Basin Heaths Joint Strategic Partnership Board (TBH JSPB), where the County Council acts as the administrative body. Any investments made from cash held on behalf of the TBH JSPB are made with the agreement that the TBH JSPB has received its own financial advice and assumes all risks associated with these investments.

56. The increase in the amount earmarked for higher yielding investments to £250m set out in the Capital and Investment Strategy will allow the County Council to continue to invest its investment balances appropriately and also to invest balances held on behalf of the TBH JPSB in line with their instructions.

57. The current portfolio of investments targeting higher yields is summarised in Table 2.

Table 2: Investments targeting higher yields portfolio

Investment type	**Amount invested £m***	**Market value at 31/12/2020 £m**	**Gain/(fall) in capital value %**
Fixed deposits	21.5	21.5	0.0%
Pooled property funds	75.0	73.2	(2.4%)
Pooled equity funds	50.0	47.0	(5.9%)
Pooled multi-asset funds	48.0	46.5	(3.2%)
Total	**194.5**	**188.2**	**(3.2%)**

* Excludes £6m invested in pooled funds on behalf of TBH JSPB

58. The County Council's investments in pooled funds bring significant benefits to the revenue budget, with over £25m of dividends earned since it first made these investments. Capital values have shown a strong recovery since the lows experienced in March 2020 as a result of the coronavirus pandemic and even though capital values remain below the amount originally invested, the dividends earned mean the total return is significantly positive. The total return for pooled funds since purchase was 14.31% at 31 December 2020.

59. At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since

the County Council would avoid selling investments that realised a capital loss.

60. In addition to the risk of realising a capital loss, changes to IFRS 9 mean that capital gains and losses on investments need to be reflected in the revenue account on an annual basis, although there is currently a statutory override in place for local authorities that exempts them from complying with this requirement for the next three years.

61. When the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently approximately £5m. This equates to about 2.5% of the amount invested, or 2.0% of the total earmark of £250m. The County Council intends to continue to contribute towards the Investment Risk Reserve when required to ensure 2.5% of the total amount invested is held in reserve (in line with the recommendation of 2.5% for the general fund balance).

62. In the short term the County Council continues to take a prudent approach to forecasting income returns from its investments targeting higher yields, anticipating lower percentage returns than in previous years, due to the ongoing impacts of the coronavirus pandemic on property rents, company dividends and other sources of income being sought by its pooled fund investment managers.

63. However, even if the target of 4% per annum is not delivered in the short term, the County Council expects to achieve significantly greater income returns from these investments than from the rest of its investment portfolio and has achieved an average income return of 4.51% per annum from its pooled fund investments since purchase. Table 3 provides an example of the difference in the annualised average income return from the higher yielding strategy at 31 December 2020 and the returns being achieved on the County Council's other investments at that date.

Table 3: Weighted Average Returns and Indicative Annualised Income

	Cash Balance 31/12/2020 £m	Weighted Average Return %	Annualised Income £m
Short-term and Long-term Cash Investments	281.6	0.44	1.24
Investments Targeting Higher Yields	200.5	3.89	7.80
Total	**482.1**	**1.88**	**9.04**

64. The annualised average returns for pooled funds shown in Table 3 include the period prior to the coronavirus pandemic and the County Council is taking a more prudent approach when forecasting income returns for 2020/21. This is following advice from Arlingclose on the potential impact that the pandemic has had and will continue to have on the ability of pooled funds to deliver against their income targets in the short term. Any shortfall at the end of the year to the budgeted income will be met from the Covid-19 financial response package.

Investment Limits

65. The maximum that will be lent to any one organisation (other than the UK Government) will be £70m. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 4.

Table 4: Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£70m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£175m per manager

Approved Counterparties

66. The County Council may invest its surplus funds with any of the counterparty types in Table 5, subject to the limits shown:

Table 5: Sector and counterparty limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£70m	Unlimited
Secured investments *	25 years	£70m	Unlimited
Banks (unsecured) *	13 months	£35m	Unlimited
Building societies (unsecured) *	13 months	£35m	£70m
Registered providers (unsecured) *	5 years	£35m	£70m
Money market funds *	n/a	£70m	Unlimited
Strategic pooled funds	n/a	£70m	£350m
Real estate investment trusts	n/a	£35m	£70m
Other investments *	5 years	£35m	£70m

This table must be read in conjunction with the notes below

*** Minimum credit rating**

67. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

68. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government

69. Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

Secured investments

70. Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured)

71. Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured)

72. Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds

73. Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the County Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds

74. Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes

cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the County Council's investment objectives will be monitored regularly.

Real estate investment trusts (REITs)

75. Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments

76. This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the County Council's investment at risk.

Operational bank accounts

77. The County Council may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The County Council's operational bank account is with National Westminster and aims to keep the overnight balances held in current accounts positive, and as close to zero as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the County Council maintaining operational continuity.

Risk assessment and credit ratings

78. Credit ratings are obtained and monitored by the County Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and

- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

79. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the security of investments

80. The County Council understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the County Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

81. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the County Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the County Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Liquidity management

82. The County Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the County Council’s medium term financial position (summarised in Table 1) and forecast short-term balances.

83. The County Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the County Council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

Treasury Management Indicators

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

Interest rate exposures

85. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 6: Interest rate risk indicator

	31 December 2020	**Impact of +/- 1% interest rate change**
	£m	**£m**
Sums subject to variable interest rates:		
Investment	429.9	+ / - 4.3
Borrowing	20.0	+ / - 0.2

Maturity structure of borrowing

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

Table 7: Refinancing rate risk indicator

	Upper	**Lower**
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	75%	0%
30 years and above	100%	0%

87. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year

88. 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 will be:

Table 8: Price risk indicator

	2021/22	**2022/23**	**2023/24**
Limit on principal invested beyond year end	£350m	£330m	£300m

Related Matters

89. The CIPFA Code requires the County Council to include the following in its treasury management strategy.

Financial derivatives

90. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

91. The County Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the County Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

92. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the

appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit.

93. In line with the CIPFA Code, the County Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Investment training

94. The needs of the County Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

95. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

96. CIPFA's Code of Practice requires that the County Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All members were invited to a workshop presented by Arlingclose on 8 December 2020, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2021.

Investment advisers

97. The County Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Deputy Chief Executive and Director of Corporate Resources, her staff and Arlingclose.

Markets in Financial Instruments Directive

98. The County Council has opted up to professional client status with its providers of financial services, including advisers, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the County Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

Annex A – Arlingclose Economic & Interest Rate Forecast - December 2020

Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.
- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.
- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.
- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.
- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or the deployment of vaccines.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B - Existing Investment & Debt Portfolio Position at 31 December 2020

Investment Position (Treasury Investments)

Investments	**30/09/2020 Balance £m**	**Movement £m**	**31/12/2020 Balance £m**	**31/12/2020 Rate %**	**31/12/2020 WAM* years**
Short Term Investments					
- Banks and Building Societies:					
- Unsecured	23.5	21.7	45.2	0.03	0.0
- Money Market Funds	58.6	(25.8)	32.8	0.01	0.0
- Local Authorities	105.0	28.0	133.0	0.41	0.6
- Cash Plus Funds	10.0	-	10.0	1.23	0.0
	197.1	23.9	221.0	0.31	0.4
Long Term Investments					
- Banks and Building Societies:					
- Secured	30.6	0.1	30.7	0.35	1.7
- Local Authorities	25.0	4.9	29.9	1.51	1.3
	55.6	5.0	60.6	0.92	1.5
Long Term Investments – high yielding strategy					
- Local Authorities	21.5	-	21.5	4.31	12.8
- Pooled Funds					
- Pooled property**	77.0	-	77.0	3.51	N/A
- Pooled equity**	52.0	-	52.0	4.46	N/A
- Pooled multi-asset**	46.0	4.0	50.0	3.69	N/A
	196.5	4.0	200.5	3.89	12.8
Total Investments	**449.2**	**32.9**	**482.1**	**1.88**	**1.1**

* Weighted Average Maturity

** The rates provided for pooled fund investments are reflective of the average dividend return over the last 12 months.

	31/12/2020 Balance £m	**31/12/2020 Average rate %**
External Borrowing:		
- PWLB Fixed Rate	(223.5)	(4.73)
- Other Loans (including LOBO Loans)	(41.3)	(4.34)
- Other Short-term Borrowing*	(40.8)	N/A
Total External Borrowing	(305.6)	(4.67)
Other Long-Term Liabilities:		
- Street Lighting PFI	(95.6)	
- Waste Management Contract	(45.9)	
Total Other Long-Term Liabilities	(141.5)	
Total Gross External Debt	**(447.1)**	
Investments	**482.1**	**1.88**
Net (Debt) / Investments	**35.0**	

* includes balances held by the County Council on behalf of others for governance or administrative reasons

Annex B

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
Treasury Management Strategy Statement 2020/21 to 2022/23	20/2/2020
Revenue Budget and Precept 2020/21	3/2/2020
Revenue Budget and Precept 2021/22	9/2/2021
Direct links to specific legislation or Government Directives	
Title	Date

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 disproportionally low.

2. **Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report which relates to the County Council’s management of its cash investment balances.

HAMPSHIRE COUNTY COUNCIL

Committee:	Audit Committee
Date:	4 March 2021
Title:	Policy Update - Whistleblowing
Report From:	Carolyn Williamson, Deputy Chief Executive and Director of Corporate Resources

Contact name: Andy Bailey

Tel: 07837 894673 **Email:** andy.bailey@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to inform the Audit Committee that the Whistleblowing Policy has been updated in relation to matters raised directly to Members. The policy is appended for information.

Recommendation(s)

2. The Committee note the amendment to the Whistleblowing Policy and the inclusion of Whistleblowing within Governance Briefings following the election.

Contextual information

3. The Whistleblowing Policy was updated in December 2020 as part of a regular review. The policy provides for individuals to raise a Whistleblowing issue to an Elected Member. Clarification was sought on the next steps for an Elected Member in such circumstances.

4. In this circumstance, the Elected Member should contact the Monitoring Officer, and this has been added to the Whistleblowing Policy that will be published following this Audit Committee. The additional wording is highlighted in the copy of the policy appended to this report.

5. Further, the Monitoring Officer will ensure matters relating to Whistleblowing are included as part of the Governance Briefing following the election.

Conclusions

6. The amendment to the Whistleblowing Policy and inclusion of the matter during the Governance Briefing will provide Members with key steps to take, should the matter arise.

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

Other Significant Links

Links to previous Member decisions	
<u>Title</u> None	<u>Date</u>
Direct links to specific legislation or Government Directives	
<u>Title</u> The Public Interest Disclosure Act	<u>Date</u> 1998

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 disproportionally low.

2. **Equalities Impact Assessment:**

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

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Hampshire County Council

Whistleblowing Policy

Policy statement	**Hampshire County Council is committed to the highest standards of openness and accountability and takes malpractice seriously. All workers have a right and a duty to report concerns of malpractice that are in the public interest. The policy defines the framework for reporting and investigating whistleblowing concerns.**
Scope	**All employees employed by a Hampshire County Council department (excluding staff in schools)** **This policy also applies to all volunteers and workers including agency staff, contractors and suppliers of services, but see 'key definitions'.**
Policy outcomes	The aims of this policy are to: • provide a mechanism for raising concerns believed to be in the public interest • ensure that concerns are investigated promptly, thoroughly and effectively • enable critical information to be shared appropriately • ensure that a worker who raises a genuine concern is not victimised • ensure that concerns raised are taken seriously and dealt with proportionally • minimise external disclosures by encouraging a worker to report malpractice concerns internally • ensure compliance with legal obligations • improve trust and confidence and create a culture of honesty and openness • maintain the Council's reputation

Check which policy to use	Concerns relating to an employee's own working situation should be addressed using the Resolving Workplace Issues Policy.

Complaints about the quality of service delivery should be addressed using the Corporate Complaints procedure.

It should be emphasised that this policy is to ensure individuals who believe they have discovered malpractice or impropriety know how to raise their concerns. It is not designed to enable individuals to question legitimate financial or organisational decisions taken by the Council. Nor should it be used to reconsider any matters which have already been addressed under the Council's Resolving Work Place Issues, Disciplinary, Complaint Policies and procedures, or appeal procedures.

Concerns raised through this policy will be assessed to decide if they meet the criteria for a protected disclosure. If they do not, the employee will be informed which procedure to use.

Key definitions

Whistleblowing is 'making a disclosure in the public interest' and occurs when a worker raises a concern about a danger, illegality or malpractice that affects others, for example members of the public.

For the purposes of this policy a **worker** is defined as an employee, temporary member of staff, agency staff. Volunteers, contractors and suppliers of services are not workers, but may make a disclosure in accordance with this policy.

'**Protected Disclosure'** means the worker has made a disclosure that meets two criteria
a) it is in the public interest which means it must affect others, for example the general public. and
b) the worker reasonably believes that the disclosure tends to show past, present or likely future wrongdoing falling into one or more of the following categories:

- criminal offences (this may include, for example, types of financial impropriety such as fraud)
- failure to comply with an obligation set out in law
- miscarriages of justice
- endangering of someone's health and safety
- damage to the environment
- covering up wrongdoing in the above categories

Where the above two criteria are met, the worker is protected from victimisation as a result of making their disclosure. In order to ensure that they qualify for protection, the worker should follow a certain procedure, as detailed in the Employee How to Guide.

Volunteers, contractors and suppliers of services are not workers and as such are not covered by the relevant legislation and so whilst in scope of this policy any disclosure would not legally be defined as a protected disclosure.

For the purposes of this policy document the term worker is used to encompass everyone in scope of the policy but should not be read as meaning that other individuals or groups can make a protected disclosure.

Expected standards

The standards expected of all employees are set out in the Local Government Code of Conduct, corporate policies and local procedures and guidance.

Safeguarding

Where there are concerns of ill treatment of children or adults at risk you must inform Children's Services or Adults' Health & Care immediately.

Making a disclosure

A worker who has a whistleblowing concern should report it to their line manager or senior manager verbally or in writing in the first instance and at the earliest opportunity.
The following principles apply:

- all employees have a duty of confidentiality to the Council
- the confidentiality of a worker who raises a concern is respected as far as possible
- the worker is encouraged to give their name as anonymous concerns are much less powerful and are more difficult to investigate
- there will be no adverse consequences for a worker who raises a genuinely-held concern
- victimisation and/or deterring a worker from raising legitimate concerns constitutes serious misconduct and will be addressed using the Managing Misconduct policy
- concerns raised frivolously, maliciously, for personal gain, or where they are known to be untrue, constitute serious misconduct and will be addressed using the Managing Misconduct policy and may result in disciplinary action, or for agency staff, termination of the agency contract.

Responding to a disclosure

The manager must contact HR Operations if they have received a complaint under this policy.

The manager must assess the nature of the concern, to decide it meets the definition of a protected disclosure and if so, the seriousness of the concern and respond appropriately and proportionately.

If a concern is raised anonymously, and not all the relevant information has been provided to take the complaint further. The manager must decide, based on the nature and seriousness of the issue, whether to investigate it further. The manager should record the reasons for reaching their decision

Investigation

If a complaint is in the 'public interest', an investigation which is proportionate to the concern that is raised is undertaken and completed. A senior manager will be appointed to undertake the investigation, which may be a manager or a member of a specialist team, such as internal audit.

If urgent action is required, such as a referral to the Police, this takes place before an investigation starts.

The investigation is completed as promptly as possible, however it is not always possible to provide an exact timescale at the start of an investigation due to the varied nature of whistleblowing concerns.

The worker who raised the concern is kept informed during the investigation as appropriate and subject to legal and confidentiality constraints. The worker should treat any information about the investigation as confidential.

Outcome of the investigation

The outcome(s) of the investigation is:

- shared with the worker who raised the concern (subject to legal and confidentiality constraints)
- referred to the appropriate manager or department to progress any actions that may be required
- reviewed to ensure that the actions taken have resolved the original concern.

Making a disclosure externally

A worker should only raise a concern externally in the following situations:

- the concern has been raised internally but the worker believes the issue remains unresolved

- the worker believes that they have been or will be placed in a vulnerable position by raising the concern internally.

In these situations, the worker may wish to raise the concern externally to contacts such as:

- an Elected Member of the Council[1]
- Protect (formerly known as Public Concern at Work)
- those listed on the Department for Business Innovation & Skills list of prescribed persons and bodies https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2
- the Police [for criminal matters]
- the whistleblowing helplines of external bodies, e.g. OFSTED.

Record keeping

Details of all whistleblowing concerns and investigations are retained for 6 years plus the current year from the close of the case, except where separate retention rules apply, e.g. child protection records.

Examples of illegality or malpractice

Examples of the types of malpractice that could be disclosed under the policy are:

- fraud or corruption
- financial irregularities
- unauthorised use of public funds
- the physical, emotional or sexual abuse of clients
- deficiencies in the care of vulnerable people
- serious breaches of professional codes of conduct/ practice
- failure to follow financial and contractual procedure rules
- showing undue favour to a contractor or a job applicant
- other dangers or illegalities which may affect clients, members of the public or the Council.

Related documents

To help with the application of this policy it may be useful to read the following:

- Employees' How to Guide - Whistleblowing
- Managers' How to Guide - Whistleblowing

[1] In the event of a concern being raised with an Elected Member of the Council, the Elected Member should contact the Monitoring Officer who will provide advice and support to determine the appropriate way forward.

- Local Government Code of Conduct
- Managing Misconduct policy.

Support

Employees:
Further information is available in the Employees' How to Guide – Whistleblowing.

Queries relating to this policy should be directed to your manager.

Your Trade Union can be contacted for advice.

Access to free, confidential and impartial Employee Support is available to all employees. Please visit the webpages for further information https://extra.hants.gov.uk/employee/policy-guidance/occupational-health/employee-support

Protect are a registered charity whose services are free and confidential. Their website is https://protect-advice.org.uk/

Managers:
Further information is available in the Managers' How to Guide – Whistleblowing.
Advice on remaining queries can be directed to HR Operations at hradvice@hants.gov.uk or on 01962 813915.

Policy Governance

SharePoint ID	HRDOCID-561776108-XXXXX
Date of publication:	April 2014 v2 - June 2014 v2.1 – October 2014 v2.2 – May 2015 v2.3 – July 2015 v2.4 – July 2018 v2.5 – May 2019 v2.6 – 04 September 2019 v2.7 – 1 January 2021 v2.8 – TBC
Owner:	HR Operations

Employees of non Hampshire County Council customers are excluded from this policy and should refer to their own employer's policies and procedures.

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	4 March 2021
Title:	Minutes of the Hampshire Pension Fund Panel and Board – 4 December 2020 (less exempt)
Report From:	Director of Transformation and Governance

Contact name: Caroline Roser

Tel: 0370 779 5280 **Email:** caroline.roser@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the non-exempt minutes from the meetings of the Hampshire Pension Fund Panel and Board which took place on 4 December 2020.

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Mitchell Room, EII Podium, Winchester on Friday, 4th December, 2020

PRESENT

Chairman:
* Councillor Mark Kemp-Gee

Vice-Chairman:
* Councillor Tom Thacker

* Councillor Christopher Carter
* Councillor Alan Dowden
* Councillor Andrew Gibson
* Councillor Jonathan Glen
* Councillor Andrew Joy
* Councillor Peter Latham
* Councillor Bruce Tennent

Co-opted members

* Councillor Stephen Barnes-Andrews, Employer Representative - Southampton City Council
* Cllr Cal Corkery, Employer Representative - Portsmouth City Council
* Cllr Paul Taylor, Employer Representative - HIOWLGA
* Liz Bartle, Employer Representative - Other Employer

Dr Clifford Allen, Scheme Member Representative - Pensioner Member

* Sarah Manchester, Scheme Member Representative Substitute
* Neil Wood, Scheme Member Representative - Active Member
* Lindsay Gowland, Scheme Member Representative - Deferred Member

Independent Adviser:
* C. Dobson

*Present

BROADCASTING ANNOUNCEMENT

The Chairman asked for the broadcast of the meeting to begin. Those remaining at the meeting were consenting to being filmed and recorded.

286. **APOLOGIES FOR ABSENCE**

Dr Allen sent his apologies.

287. **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 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 4 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.

288. **CONFIRMATION OF MINUTES (NON-EXEMPT) OF THE MEETING HELD ON 20 NOVEMBER 2020**

The minutes of the previous meeting on 20 November 2020 were confirmed.

It was agreed that an update on Item 280 from the previous meeting (Exit Cap Reforms) would be received under the exempt part of the agenda because it involved the discussion of legal advice received on this matter.

289. **DEPUTATIONS**

No deputations were received.

290. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman reminded members that the Panel and Board's first virtual internal training session will be held on 9 December 2020 and will be delivered by Royal London Asset Management on the subject of index linked gilts. Cllr Glen asked if it would be possible to record the training and officers agreed to investigate and provide an update to members prior to the training session.

The Chairman also reminded members of the annual treasury management briefing from the County Council's treasury advisors Arlingclose Ltd on 8 December 2020 as well as the virtual investor day for the ACCESS pool on 17 December 2020.

Cllr Corkery asked if the Good Governance in the LGPS Update Report agenda item (item 9 in the Minute Book) including the Pension Fund's Representation Policy could be delayed until the next meeting, to allow a deputation from a trade union. The Chairman explained that the Representation Policy reflects the representation agreed after a series of consultations and negotiations with DCLG several years ago that enabled the Panel and Board to be constituted as it is, and that it is therefore not in the Panel and Board's gift to amend this quickly or unilaterally. The Deputy Chief Executive and Director of Corporate Resources explained that the Pension Fund's statutory statements, including the Governance Policy Statement and Governance Compliance Statement covered under agenda item 9, are reviewed and approved on an annual basis by the Panel and Board, and that this review cannot be postponed until a later date as that would mean that the Panel and Board had not met its obligation to review at least annually. However, approval today would not preclude the Panel and Board from revisiting later in the year if required. If a written submission from the union is received ahead of the next meeting of the Panel and Board in February 2021, any points raised can be addressed and a further paper can be brought back to the Panel and Board in due course if necessary.

291. **ACCESS MINUTES - 7 SEPTEMBER 2020**

The minutes of the ACCESS Joint Committee meeting held on 7 September 2020 were received.

292. **GOVERNANCE: ADMINISTRATION PERFORMANCE UPDATE**

The Panel and Board noted a report of the Deputy Chief Executive and Director of Corporate Resources (item 7 in the Minute Book) updating the Pension Fund Panel and Board on administration performance in the first six months of 2020/21 and other administrative issues.

Administration performance against key service standards is measured each month and in the first six months of 2020/21 Pension Services have delivered a 100% success rate against all standards. The Chairman noted that the cost per scheme member is also one of the lowest figures in the country and congratulated the Pension Services team on their achievements.

Employer year end returns are submitted to Pension Services and the data is then used to update pension records and produce annual benefit statements. Employers are measured for timeliness, financial control and data quality and any who are highlighted as a concern or who receive a red rating for data quality are required to complete a data validation exercise. Employers have continued to improve the quality and timeliness of the data they provide.

The pension administration system, UPM, provided by Civica, was purchased in 2013 and the contract was due to expire in November 2020. The system has been re-procured for an initial 5 year term with the option to extend for a further two years to 2027.

The Pension Regulator (TPR) requires schemes to complete an annual return providing details of the contributing employers and governance arrangements. Pension Services have demonstrated an improvement in both the common and conditional data scores which are reported annually to The Pension Regulator. Work has also started on tracing the addresses of approximately 8,000 members with whom the Fund has lost contact. Cllr Carter congratulated the Pensions Services team on progress made to date in locating these members.

A response to the MHCLG consultation on implementing the McCloud remedy in the LGPS was submitted in October 2020 and focussed on the huge administrative burden that the proposed approach will place on both Pension Services and Scheme Employers.

Work on improving the online offer for members and employers has continued during 2020/21. An estimate facility was implemented earlier in the year and members can now also complete their retirement declaration form online. The new Employer Hub has been installed and a plan is in place to roll this out. The Communication Policy Statement has been updated to reflect the focus on the Member Portal and Employer Hub.

RESOLVED:

That the draft Communication Policy Statement was approved.

293. **GOVERNANCE: PENSION FUND BUDGET**

The Panel and Board received a report of the Deputy Chief Executive and Director of Corporate Resources (item 8 in the Minute Book) presenting the proposed budget for 2021/22 and projections for 2022/23. The budget is categorised according to CIPFA's definitions of investment management, administration, and governance.

The budget for 2021/22 has been prepared to reflect the costs of delivering the Pension Fund's statutory responsibilities for the administration of the scheme and management of investments. The resources contained within the budget are sufficient to meet the Fund's regulatory requirements and deliver at the standards for administration that are reported to the Panel and Board. The budget does not at this stage include costs associated with GMP equalisation or the McCloud remedy, but the new developments and initiatives that are included in the Fund's Business Plan are included in the budget.

Members discussed whether to add an amount to the budget for specialist communications resource. The meeting was adjourned to agree an amended recommendation and the Panel and Board then agreed to add £20,000 per annum to the budget for communications from the 2019/20 financial year onwards to allow the Pension Fund to further develop communication with stakeholders.

RESOLVED:

a) That the budget as shown in Appendix 1 for the Pension Fund for 2021/22 was approved.
b) That the Pension Fund Panel and Board agreed to add an additional amount of £20,000 to the Pension Fund's governance budget to fund additional communication activity in 2021/22 and also agreed an additional £20,000 within the current year's budget to make progress within the current financial year.

294. **GOVERNANCE: GOOD GOVERNANCE IN THE LGPS UPDATE REPORT**

The Pension Fund Panel and Board noted a report of the Deputy Chief Executive and Director of Corporate Resources (item 9 in the Minute Book) providing an update on the review of governance structures in the LGPS being conducted by Hymans Robertson on behalf of the Scheme Advisory Board (SAB).

Since 2019, there have been two phases of the review, leading to the production of a series of recommendations. The third phase was delayed due to the impact of Covid-19 but is currently underway.

The Pension Fund has reviewed its current governance arrangements against the recommendations from the Phase II report and largely meets the proposed requirements with some opportunities for enhancements. As a result, the

Pension Fund will now publish a Training Policy and Representation Policy on its website. Both policies contain documentation that has already been agreed and published at previous times. The Panel and Board agreed that minor amendments would be made to the Representation Policy to reflect the timing of the appointment of the Unitary Authority Representative. In response to a question from Sarah Manchester additional wording will also be added to clarify that Substitute Members may still attend meetings when they are not substituting, but in an observer capacity. Officers will circulate the updated document to members prior to publication.

The Pension Fund also maintains a Governance Policy Statement and Governance Compliance Statement in line with the Local Government Pension Scheme Regulations.

RESOLVED:

a)The Governance Policy Statement and Governance Compliance Statement were approved
b)The Training Policy was approved.
c)The Representation Policy was approved

295. **GOVERNANCE: REVIEW OF THE PENSION FUND'S STATUTORY STATEMENTS**

The Panel and Board received a report from the Deputy Chief Executive and Director of Corporate Resources (Item 10 in the Minute Book) to review the Pension Fund's Business Plan, Investment Strategy Statement, Administration Strategy Statement, Funding Strategy Statement, Employer Policy and Risk Register.

The Business Plan includes planned activity to comply with the requirements of the UK Stewardship Code and UN Principles for Responsible Investment (PRI).

The Investment Strategy Statement has been updated to reflect the Fund's current investment management arrangements as well as other minor changes and includes its Responsible Investment Policy.

Changes to the Administration Strategy Statement, Funding Strategy Statement and Employer Policy were all last approved by the Panel and Board in July 2020 and no further changes have been made.

The Investment Risk Register was previously included as an appendix to the Investment Strategy Statement. The Pension Fund's Risk Register (including the Investment Risk Register) is approved each summer as part of the Annual Report. The Risk Register will also now be published as a standalone document on the Pension Fund's website.

RESOLVED:

(a) Progress on the Business Plan actions was noted and the updated Business Plan was approved
(b) The Investment Strategy Statement was approved

(c) The Administration Strategy Statement was approved
(d) The Funding Strategy Statement was approved
(e) The Employer Policy was approved
(f) The Risk Register was approved

296. INVESTMENT: PENSION FUND CASH MONITORING REPORT AND ANNUAL CASH INVESTMENT STRATEGY 2021/22

The Panel and Board considered a report of the Deputy Chief Executive and Director of Corporate Resources (Item 11 in the Minute Book) on the Pension Fund's cash balances and the Annual Cash Investment Strategy for those balances in 2021/22. The Annual Cash Investment Strategy for has been prepared taking advice from the County Council's treasury management advisors Arlingclose into account.

RESOLVED:

(a) The Annual Cash Investment Strategy for 2021/22 was approved
(b) The Annual Cash Investment Strategy for 2021/22 will be implemented from the date of this meeting for the remainder of 2020/21
(c) The Director of Corporate Resources is authorised to manage the Fund's cash balance in accordance with the policy set out in the report

297. 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.

Following the resolution the Chairman asked for the broadcasting of the meeting to end.

298. CONFIRMATION OF THE EXEMPT MINUTES OF THE MEETING HELD ON 20 NOVEMBER 2020

The exempt minutes of the Pension Fund Panel and Board held on 20 November 2020 were confirmed.

299. INVESTMENT: CASH MONITORING AND ANNUAL CASH INVESTMENT STRATEGY 2021/22- EXEMPT APPENDIX

The Panel and Board received an exempt appendix from the report of the Deputy Chief Executive and Director of Corporate Resources (Item 14 in the

Minute Book) on the Pension Fund's cash monitoring and annual cash investment strategy 2021/22. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

Chairman,

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By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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

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