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Hampshire County Council

NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Thursday, 3rd March, 2022 at 2.00 pm
Place	Mitchell Room, EII Court, Winchester
Enquiries to	members.services@hants.gov.uk

Carolyn Williamson FCPFA
Chief Executive
The Castle, Winchester SO23 8UJ

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

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

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

3. MINUTES OF PREVIOUS MEETING HELD ON 16 DECEMBER 2021 (PUBLIC) (Pages 5 - 8)

To confirm the public minutes of the previous meeting.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

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

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

7. EXTERNAL AUDIT ANNUAL REPORT FOR THE YEAR ENDING 31 MARCH 2021 (Pages 15 - 52)

To receive the external auditors report for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2021.

8. TREASURY MANAGEMENT STRATEGY STATEMENT 2022/23 TO 2024/24 (Pages 53 - 84)

9. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 28 SEPTEMBER 2021 (PUBLIC) (Pages 85 - 94)

To receive the public minutes of the Hampshire Pension Fund Panel and Board meeting held on 28 September 2021.

10. 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.

11. MINUTES OF THE PREVIOUS MEETING HELD 16 DECEMBER 2021 (EXEMPT) (Pages 95 - 96)

To confirm the exempt minutes of the previous meeting.

12. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 28 SEPTEMBER 2021 (EXEMPT) (Pages 97 - 112)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 28 September 2021.

ABOUT THIS AGENDA:

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

ABOUT THIS MEETING:

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

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

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Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL held at the castle, Winchester on Thursday, 16th December, 2021

Chairman:
* Councillor Alexis McEvoy

* Councillor Rod Cooper
Councillor Tim Davies
* Councillor Dominic Hiscock
* Councillor Keith House
* Councillor Mark Kemp-Gee
* Councillor Derek Mellor
Councillor Michael Thierry

Councillor Andy Tree

*Present

29. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Tim Davies and Michael Thierry.

30. **DECLARATIONS OF INTEREST**

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

Councillor House declared a non-pecuniary interest in Item 7 of the agenda, as a Member of the Board of Public Sector Audit Appointments (PSAA).

31. **MINUTES OF PREVIOUS MEETING HELD ON 29 SEPTEMBER 2021**

The minutes of the meeting held on 29 September were agreed as a correct record and signed by the Chairman.

Members were advised by the Head of Corporate Operations that the Statement of Accounts for 2020/21 had been signed off. In the final accounts was a net adjustment of £12.8m, which Members heard was a technical adjustment and had been agreed by the Head of Corporate Operations, in line with the delegated authority given by the Audit Committee at the previous meeting.

32. **DEPUTATIONS**

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

33. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

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

The Committee considered the report of the Chief Executive regarding the County Council's use of regulated investigatory powers.

Members heard that surveillance powers had not been used during the previous quarter.

RESOLVED:

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

35. **OPTIONS FOR THE APPOINTMENT OF EXTERNAL AUDITORS**

The Committee considered a report of the Director of Corporate Operations outlining the options available to the County Council for the appointment of external auditors for the 5 year period from April 2023.

Members heard that:

- The current contract with Ernst and Young had been commissioned through the previous arrangement with PSAA. At that time, 98% of local authorities opted into the PSAA scheme.
- Advantages of the PSAA national scheme were considered to include efficiencies which would allow auditors to offer better rates, reduction in administrative costs for the council and consistency in the provider used across the shared services arrangements.
- Only nine audit firms were registered nationally to work as local authority auditors, and therefore the pool of providers would be no greater should the council undertake its own procurement process.
- It was anticipated that costs for external audit would increase as a result of the growth in requirements to meet local authority audits, as well as resource pressures.

RESOLVED:

That the Audit Committee recommends to Full Council that the County Council accepts the invitation to opt-in to Public Sector Audit Appointments (PSAA) national scheme for the appointment of external auditors for Hampshire County Council (including the Hampshire Pension Fund) for the 5 year period from April 2023, noting that the decision to opt-in will be taken before contract prices are known.

36. **INTERNAL AUDIT PROGRESS REPORT**

The Committee received and noted a report from the Director of Corporate Operations providing an overview of internal audit activity against assurance work completed in accordance with the approved audit plan.

Members heard that only five actions had needed to be raised to address risks noted as overdue and that robust and timely actions had been taken by officers. It was recognised that there was a significant amount of work to be undertaken during quarter four, however the Head of Internal Audit was confident that final report would be presented in a timely manner for the meeting of the Audit Committee in July.

RESOLVED:

That the Audit Committee note the Internal Audit Progress Report (November 2021)

37. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 27 JULY 2021 (LESS EXEMPT)**

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 27 July 2021.

38. **CORPORATE RISK MANAGEMENT UPDATE**

The Committee considered the report of the Chief Executive and Director of Culture, Communities and Business Services which provided an update on the County Council's Corporate Risk Management.

Members heard that Corporate Risk Management had transferred to Culture, Communities and Business Services (CCBS) in May 2021, along with Emergency Planning and Health and Safety. Since that time the department, through the Risk Management Board, had focussed upon utilising the dynamic risk management tool to capture and manage risks and embed risk management into the culture, policies and procedures of Hampshire County Council.

In response to members questions it was heard that whilst CCBS maintained a corporate oversight of all risks, each department was responsible for the management and scrutiny of any risks sitting within their own business area, co-ordinated through the Risk Management Board and reported to the Corporate Management Team.

RESOLVED:

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

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

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

40. CORPORATE RISK MANAGEMENT UPDATE - EXEMPT APPENDIX

The Committee noted an appendix to the Corporate Risk Management update.

(Summary of an exempt minute)

41. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 27 JULY 2021 (EXEMPT)

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 27 July 2021.

Chairman, 3 March 2022

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	3 March 2022
Title:	Information Compliance – Use of Regulated Investigatory Powers
Report From:	Chief Executive

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.

Quarterly Reporting of Surveillance

Number of Authorisations by Quarter (1 April 2021 – 31 March 2022)

Direct Surveillance			
	Purpose of Surveillance		
2021-22 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	1	1	Doorstep Crime
2	0	0	
3	0	0	
4			
Total -	**1**	**1**	

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

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	3 March 2022
Title:	Hampshire County Council and Hampshire Pension Fund Audit Report for year ending 31 March 2021
Report From:	Ernst and Young LLP (external auditors)

Contact name: Kevin Suter

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

Purpose of this Report

1. The purpose of this report is to present to the Audit Committee the audit conclusion in relation to the audit of Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2021, and the County Council's arrangements for ensuring value for money.

Recommendation

2. That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund Audit Reports for year ending 31 March 2021.

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:**

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

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Hampshire County Council and Hampshire Pension Fund

Auditor’s Annual Report
Year ended 31 March 2021

February 2022

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Hampshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Hampshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hampshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.
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

Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 20 December 2021.
Going concern	We have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	Financial information in the Pension Fund Annual Report and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statements were consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated September 2021 to the Audit Committee.
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 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address additional audit work required as a result of the revised ISAs that are in scope for this year end in relation to estimates and going concern, along with the additional work required for the revised VfM arrangements. As a result, we will discuss an associated additional fee with the Chief Finance Officer. We include details of the final audit fees in Appendix 1.

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 and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council, or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 23 June 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council are responsible for preparing and publishing their financial statements, annual reports and governance statements. They are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit – County Council.

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Statement of Accounts is an important tool for the Council to show how they have used public money and how they can demonstrate their financial management and financial health.

On 20 December 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the September Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. Our journal testing did not identify any journal entries without a valid business purpose. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business.
Inappropriate capitalisation of expenditure Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	Our testing has not identified any material misstatements from inappropriate capitalisation of revenue expenditure. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Going concern disclosures The Council are required to carry out an assessment of their ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.	We reviewed the cashflow forecasts prepared by management and are satisfied with the reasonableness of the assumptions which covers the period to 31 March 2023. We agreed the layout and content of the disclosure with management and to ensure there were adequate disclosures included within the final Statement of Accounts.
Valuation of investment property Investment properties (along with land and buildings) are one of the most significant balances in the HCC's Balance Sheet. The valuation of land and buildings held as investment property is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	We noted a difference in our testing of the valuation of investment property of £13m (understatement). The main difference was attributable to construction costs that had not been included in an investment property valuation due to timing of valuation (01 April). Management chose not to adjust due to materiality.
Valuation of land and buildings Land and buildings is one of the most significant balances on the balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	We noted differences in our testing of valuations in the year (extrapolated overstatement) and of our analysis of assets not revalued in the year (understatement) that was above our nominal amount therefore we have recorded as a misstatement. The most significant elements of the valuation errors were attributable to DRC buildings and for assets not valued in the year, we disagreed that land and buildings had not moved significantly. The differences give a net overstatement of £35m. Management chose not to adjust due to materiality.
Pension Liability valuation The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	Based on the work performed by the Auditor's of the Pension Fund, we recorded an understatement in the pension asset held by the Council of £4.9m. Management chose not to adjust due to materiality. No issues were noted in our testing of the pension liability valuation.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Private Finance Initiatives The Council has two PFI/service concession arrangements in place, in respect of waste and street lighting, with liabilities amounting to £161 million in 2020/21. These were both operational and recognised in the Council's balance sheet as at 31 March 2021.	We engaged internal experts to perform a review of the streetlighting PFI Model – a difference was noted in the model used in the prior year, which has not yet been updated by management and has therefore resulted in a classification difference of £19.5 million in the current year between headings within the Comprehensive Income & Expenditure Statement, and a net balance sheet impact of £1.2 million. We are working with management to resolve these differences for future periods.

Financial Statement Audit – Pension Fund

We have issued an unqualified audit opinion on the Pension Fund's 2020/21 financial statements.

Key issues

On 20 December 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the September Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. Our journal testing did not identify any journal entries without a valid business purpose. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business. We identified no unexplained differences between the fund's investment values provided by the custodian or fund managers, to those presented in the financial statements.
Valuation of complex investments (level 3 fair value hierarchy) Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data. Significant judgements are made by the Investment Managers or administrators to value these investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.	Our testing has not identified any issues with the judgements used in the valuation of level 3 investments.

Continued over.

Financial Statement Audit – Pension Fund (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Valuation of non-quoted pooled investments (level 2) The Pension Fund's investment valuations are classified into three levels, according to the quality and reliability of information used to determine fair value. As at 31 March 2021, Hampshire Pension Fund held a significant balance of non-exchange traded pooled funds which are classified as Level 2 Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. We consider the valuation of non-quoted pooled investments to be of a higher degree of inherent risk because of the extent of estimation uncertainty.	Our testing has not identified any issues with the judgements used in the valuation of level 2 investments.
Valuation of directly held property Directly held property are valued at level 2 in the fair value hierarchy, and subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the year-end valuation As the pension fund asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that directly held property may be under/overstated. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.	Our testing has not identified any issues with the judgements used in the valuation of directly held property.
Disclosures on going concern There is a presumption that the Pension Fund will continue as a going concern for the foreseeable future. However, the Pension Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19, there is a need for the Pension Fund to ensure its going concern assessment, including its cashflow forecast, is comprehensive. The Pension Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. Given the available levels of liquid investment assets, we do not consider there to be a risk to the Fund's going concern status. We do consider the unpredictability of the current environment to give rise to a risk that the Pension Fund may not appropriately disclose the key factors relating to going concern, consistent with managements assessment with particular reference to Covid-19	We reviewed the cashflow forecasts prepared by management and are satisfied with the reasonableness of the assumptions which covers the period to 31 March 2023. We agreed the layout and content of the disclosure with management and to ensure there were adequate disclosures included within the final Statement of Accounts.

Audit differences

In addition to the misstatements noted on the previous pages 9 and 10, we identified an overstatement of Council Tax & NDR income of £13.5m which management chose to adjust. We also noted a small number of misstatements in disclosures which management corrected.

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 £46.5m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. (Planning Materiality for the Pension Fund was £90.7m)
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.3m. (Reporting Threshold for Pension Fund was £4.5m)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- We set a materiality of £1k for officers and senior employees' remuneration and audit fees disclosures. We audited all disclosures and undertook procedures to confirm material completeness

Materiality	HCC	HPF
Planning	£46.5m	£90.7m
Performance	£34.9m	£68.1m
Reporting	£2.3m	£4.5m

Section 4

Value for Money

Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the June Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the CFO and evaluation of associated documentation through our regular engagement with management and the finance team.

We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work on 20 December 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues, for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
  How the Council plans and manages their resources to ensure they can continue to deliver their services;
- Governance
  How the Council ensures that they make informed decisions and properly manages their risks; and
- Improving economy, efficiency and effectiveness:
  How the Council uses information about costs and performance to improve the way they manages and deliver services.

VFM Commentary

The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the Covid-19 pandemic has had a significant impact shaping decisions made, how services have been delivered, and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

2020/21 has clearly been an extraordinary year for the Council, with the Covid-19 pandemic providing a number of financial challenges during 2020/21 but also having a significant impact upon the review and development of the Medium-Term Financial Strategy (MTFS) for 2021/22 and beyond.

Regarding financial planning, the Council works to refine budgets and the Medium Term Financial Strategy (MTFS) to respond to cost pressures as they emerge, and recognises that effective financial planning remains difficult due to continuing uncertainties in the funding that will be made available to councils. The County Council reviews its budgetary position annually and produces a rolling three year plan, known as the Medium Term Financial Strategy (MTFS). This plan considers the financial climate at both the local and national level together with available resources and budgetary pressures in arriving at a financial strategy.

The budget for 2020/21 was approved by the County Council on 13 February 2020 and the council tax requirement (which is the net budget met by council tax) for 2020/21 was set at £670m. During 2020/21 there have been a number of changes to the original approved budget and financial strategy, reflecting Cabinet decisions and the application of several emergency funding streams made available by the Government and NHS England in response to the coronavirus pandemic. These updates included an update to the MTFS in July 2020, and a “Financial Update” in September 2020 including updates on the funding allocations for HCC.

VFM Commentary

> The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

Medium Term Financial Strategy (MTFS):

The Council produces an MTFS every year based on a rolling three year horizon. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. The MTFS consists of a Reserves and Savings Strategy, which includes:

- Deliberate policy to make savings ahead of need to generate surplus funds (see information below where we discuss how this is done)
- Using those reserves to fund the next phase of changes to release further savings and increase capital investment
- Two year programme of savings to give the time and capacity to implement effectively
- Straight line approach to allocating savings and corporate funding made available to fund spending pressures
- Significant use of the Grant Equalisation Reserve (now Budget Bridging Reserve) to fund deficits in intervening years
- Using other corporate reserves to fund voluntary redundancy programmes and corporate invest to save and IT enabling programmes

In addition to the above, the Council focus on the Commercialisation of Local Government as part of their MTFS:

- Charging users for the direct provision of services.
- Investing money or using assets to generate a return.
- Expanding traded services to other organisations.
- Developing joint ventures that yield additional income or generate a return

The MTFS is regenerated every year based on a rolling 3 year horizon with the most recent MTFS being reported to Cabinet in October 2018, and this set out the medium term prospects for the County Council's finances to 2021/22. An update was given to the MTFS in July 2020 due to the coronavirus pandemic.

The next version on the MTFS is due to be published later in 2021.

Annual Budget Setting Process:

A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer.

The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme.

> The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it.

We note that the Council has a good record of delivering against its financial strategies and budgets by containing expenditure within budgets and achieving early savings. The success of the strategies indicates that the Council are focused on identifying any potential risks and implementing a strategy to work against these risks in order for them not to be a financial burden in the future

How the body plans to bridge its funding gaps and identifies achievable savings

The saving targets and other headline issues are agreed as part of the MTFS. The Council then implements their saving strategies through their “Transformation To” plan. These are 2 year cyclical plans that set out the programme targets, the timetable, early progress and some key issues.

The “Transformation To” programmes involve the Council identifying a number of areas per service area where savings can be achieved. The saving proposals are then documented along with any impacts of the proposal and presented to Cabinet for approval.

The Tt2021 Programme sets savings targets for departments based on meeting a predicted £80m budget deficit. At the time this figure was forecast, there were no details on local government finance beyond the 2019/20 financial year and a large range of assumptions were made for this estimate. The Council have therefore updated this programme as time progressed and new information becomes available. The updates to the plan have included more information about the cost pressure that the Council faces, particularly in adults’ and children’s social care services which are significantly outstripping the forecasts that were included in the original Tt2021 planning figures.

We note that in 2020/21, the Council underspent on their budget due to early achievement of Tt2021 savings in many service areas, and other factors such as central government support for the pandemic. The Year End Financial Update sets out that the planned delivery of savings as part of the Tt2019 and Tt2021 programmes has been delayed over the last year, as project resources to deliver the saving had been diverted to support the Covid-19 response effort. The ability to affect the volumes of care and price paid has been significantly impacted by the need to support the NHS in freeing up acute capacity.

Looking ahead, the County Council is due to consider its savings proposals for the two years to 2023/24, which require a further £80m of savings to be made, albeit once again there is little information available to inform this position. This programme is being termed Savings Programme 2023, recognising the shift away from Transformation Programmes given the need to deliver all £80m of savings by April 2023.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council's saving plans and initiatives focus around the four strategic aims, which bring together a number of their priorities forming an overarching framework for their services. The Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable. Their focus is on targeting resources at the most vulnerable people while becoming more efficient in the delivery of its services.

The Council's strategic plan is intended to guide decision making to ensure that money is targeted where it is needed most and where it can make the greatest difference.

The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

The MTFS enables the Council to consider the financial climate at both the local and national level together with available resources and budgetary pressures in order to arrive at a financial strategy. Throughout these processes, each service line is considered individually in order to ascertain whether savings can be made in each of these areas and the potential impact these savings may have.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Throughout the financial planning i.e. annual budget and MTFS processes, consideration of other plans such as capital and treasury management also take place. The Capital and Investment strategy also forms part of the annual budget setting process with the strategy being taken to Cabinet for approval at the same time as the revenue budget.

The Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

All of the Council's financial strategies and planning interlink and are presented in a way that informs clear and effective decision making.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Throughout the preparation of the budget and MTFS, risks are taken into consideration in order to see how they impact certain areas and what the financial implications of these risks might be. Reserves are used not only to help implement the MTFS but also to provide mitigation against financial risks and wider flexibility in dealing with unplanned changes.

The Council has an effective corporate risk management framework in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. This includes both financial and non-financial risks. The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee.

The Council has the arrangements we would expect to see to enable them to plan and manage their resources to ensure that they can continue to deliver services.

Budget Monitoring and Control:

The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis.

It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer.

The largest risk affecting the Council throughout the year was the ongoing Covid-19 pandemic. The Council's response, such as presented to the May 2020 Cabinet meeting, show the steps that were taken by the Council.

In our review of the minutes we can see that since May 2020, there has been a progress report in relation to the Council's response to the pandemic presented at every Cabinet meeting, with the most recent being July 2021. This report shows the latest facts and figures in relation to Hampshire, including the financial impact, and we commented on the annual revenue budget above. In Capital Programme terms there has not been a significant impact arising from Covid-19. Some programmes of works were temporarily suspended but most of these re-started again soon after.

The Council has continued to demonstrate strong financial stewardship over this extremely challenging period. At the end of 2020/21, departmental net expenditure was £51.9m lower than budgeted, against an overall gross budget of approaching £2.0bn.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council has an effective corporate risk management framework embedded in their Corporate Governance Code which is in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service priorities. The Council manages risk through "robust internal control and strong public financial management".

The elements of the Council's risk management framework are to:

- Ensure that responsibilities for managing individual risks are clearly allocated
- Align the risk management strategy and policies on internal control with achieving objectives
- Ensure an audit committee which is independent of the executive and accountable to the County Council:
    - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
    - that its recommendations are listened to and acted upon

The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee.

Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues included in summary format. Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee.

The Anti-Fraud and Corruption Strategy and related policies (including the Bribery Act Policy) are regularly reviewed and have been approved by the Audit Committee. The County Council fully participate in the National Fraud Initiative with results notified to the Audit Committee through the Chief Internal Auditors Annual Report and Opinion.

Financial regulations and procedures have been developed and are kept under review to ensure they provide an effective control framework. Compliance is monitored through appropriate review by service managers and finance staff together with independent review by internal audit.

How the body approaches and carries out its annual budget setting process

The Annual Budget process including the responsibilities and procedures in the annual budget process is set out within the Constitution of the Council. The Financial Regulations state that the Chief Financial Officer is responsible for "preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme" with Chief Officers being responsible for "controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits".

Budget Preparation:

The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme.

The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis and a forward financial forecast is prepared.

It is the responsibility of chief officers to ensure that revenue and capital budget estimates reflecting agreed service plans are prepared in consultation with the Chief Financial Officer and Executive Member and submitted to the Cabinet and that these estimates are prepared in line with the budget guidance issued by the Cabinet.

The Council has the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed.

Budget Monitoring and Control:

The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis.

It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant Executive Member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems. Any new proposal containing significant financial implications must take note of the Chief Financial Officer's advice as well as that of the relevant Chief Officer and Executive Member

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has a number of arrangements in place to ensure that appropriate decisions are made. Council decisions may be made either at Full Council meetings, at committees of Council, at a meeting of all executive members i.e. 'Cabinet' or by individual executive members at 'decision days'.

Full Council:

The Full Council is responsible for specified major decisions, such as setting the budget, and debates topical issues. It also receives reports from the Executive, and members are able to question the Executive on their areas of business.

Cabinet:

Since 2001 Hampshire has operated a Leader with Cabinet structure. Hampshire's Cabinet is made up of the Leader and executive members who each have a portfolio of responsibilities. The Cabinet make decisions together on strategic issues and individual executive members can take decisions on issues relating directly to their portfolio areas.

The Council has the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Select Committees:

The Select Committees (Overview and Scrutiny) hold the executive members to account on the decisions they make both collectively as Cabinet and individually. They can assist the Cabinet and executive members to make effective decisions by examining issues beforehand and making recommendations. The Select Committees can also challenge decisions before they are implemented, review decisions after they have been implemented to see if they achieved what was intended, and suggest new policy areas or review the effectiveness of existing policies.

Audit Committee:

The purpose of the Audit Committee is to monitor, review and report on the governance arrangements of the County Council. The Audit Committee is supported by the Internal Audit Function (Southern Internal Audit Partnership). Quarterly reports are received from the internal auditors highlighting work carried, these reports are presented at Audit Committee where the results and procedures are discussed amongst those charged with governance.

Our attendance at Audit Committees indicates that reports bought to the attention of the Audit Committee are appropriately challenged and scrutinised

Monitoring Officer:

The Council also has a Monitoring Officer in place. The function and role of the Monitoring Officer includes ensuring lawful and fair decision making.

The Council has the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

We have identified there are various policies in place regarding the integrity, ethical values and behaviour of key executives.

A code of corporate governance is in place to ensure that the intended outcomes for stakeholders are defined and achieved.

To ensure effective leadership throughout the County Council, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution and in particular looks at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the County Council has determined others locally.

The County Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers. These include codes of conduct for both officers and members and cover conflicts of interest and gifts and hospitality and appropriate policies for partnership working.

These are communicated as part of the induction process. All staff and members are provided with a copy of the respective codes of conduct when joining the Council and are required to read and comply with them. Ongoing awareness training is made available via the County Council's intranet, Hantsnet.

There are appropriate policies and procedures for ethical and behavioural standards, declaration of and protocol for conflicts of interest, and security practices that are adequately communicated throughout the organisation

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council is currently operating under the “Serving Hampshire – Strategic Plan for 2017-2021”. Each year the Council produces a performance report which provides details on the County Council’s performance throughout the year, both financial and non-financial. This report provides strategic oversight of the Council’s performance in year against the Strategic Plan and sets out ways to refresh the Plan and update the Council Performance Management Framework.

To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis. For each measure, a risk-based ‘red, amber, green’ rating is applied, informed by the most recent data and management information.

We note that in July 2021, the “Serving Hampshire Strategic Plan 2021-25” was taken to Cabinet and approved. There was no change to the 4 strategic aims:

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

The Council has the arrangements we would expect to see to enable them to use information about their costs and performance to improve the way they manage and deliver services.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has a number of collaborative working arrangements. The County Council has pooled budget arrangements with NHS bodies and joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, Westminster City Council, London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea. These involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity.

<u>Integrated Business Centre</u>

The Integrated Business Centre (IBC) is hosted by Hampshire County Council and was launched in 2014/15 for the provision of shared financial and HR services. The IBC has since extended its services to Oxfordshire County Council, London Borough of Hammersmith and Fulham, City of Westminster Council and Royal Borough of Kensington and Chelsea. The service offered by the IBC are HR Services, Finance Services, Purchase to Pay Services.

Performance is formally reviewed on a quarterly basis, and this includes a range of Performance Measures, overlaid by comprehensive service performance reports, and agreed actions to drive continued collective performance improvement. The IBC also provides an ISAE 3402 Type 2 report in relation to the control environment. This allows HCC to monitor the control environment and follow up on any control weaknesses noted.

The Council has the arrangements we would expect to see to enable them to use information about their costs and performance to improve the way they manage and deliver services.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Standing Orders on Procurement and Contracts are set out within the Constitution. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy for 2019-2021 which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the governance statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether they comply with relevant guidance.

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued.

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.

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

Other Reporting Issues (cont'd)

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 relied on the ISAE 3402 report on the controls of the Integrated Business Centre (IBC). We have not tested the operation of any controls.

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

Appendix A

Audit Fees

Audit Fees

Our base fee and fee re-basing for 2020/21 is in line with the audit fee agreed and reported in our Audit Plan and Annual Results Report.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Base Fee – CC	89,720	89,720	89,720
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	49,057	39,246	27,104
Scale fee variation	13,000		
Total Audit	151,777	TBC	116,824

For 2020/21 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the County Council and additional work to address increase in Regulatory standards. The final fee incorporates the PSAA's revised hourly rates. The scale fee variation relates to the revised requirements for VfM and Estimates auditing standard. The additional fee for 2020/21 is yet to be discussed with management and remains subject to approval by PSAA Ltd.

During 2021 EY have undertaken non-audit work in relation to the ISAE 3402 report on the integrated business centre (IBC). This was contracted through Hampshire County Council. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Base Fee – HPF	24,442	24,442	24,442
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	39,672	31,738	13,593
Scale fee variation	3,180		
Total Audit	67,295	TBC	38,035

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee:	Audit Committee
Date:	3 March 2022
Title:	Treasury Management Strategy Statement 2022/23 to 2024/24
Report From:	Director of Corporate Operations

Contact name: Gemma Farley

Tel: 0370 779 4704 **Email:** Gemma.farley@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 2022/23 to 2024/25. This includes the Annual Investment Strategy for 2022/23.

Recommendations

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

- That the Treasury Management Strategy for 2022/23 (and the remainder of 2021/22) be approved.
- That authority is delegated to the Director of Corporate Operations 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 2022/23 report on 8 February 2022 and 17 February 2022 respectively).

7. This Treasury Management Strategy Statement (TMSS) 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 TMSS is being set.

Economic background

12. The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the County Council's treasury management strategy for 2022/23.

13. The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895bn. Within this announcement the Monetary Policy Committee (MPC) noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the BoE also considered the UK economy to be evolving in line with expectations, however due to the increased uncertainty and risk to activity that the new variant presents, the BoE revised down its estimates for Quarter 4 of 2021 Gross Domestic Product (GDP) growth. The BoE projects that inflation will be higher than previously forecast, with the Consumer Price Index (CPI) likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4%, but notes that Omicron could potentially weaken the demand for labour.

Credit outlook

14. Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. CDS prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks.

15. The generally improved economic outlook during 2021 helped UK banks' profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

16. The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

17. Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the County Council's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the County Council's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast

18. The County Council's treasury management adviser Arlingclose forecast that Bank Rate will continue to rise in Quarter 1 of 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

19. Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets.

20. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.65%, 0.90%, and 1.15% respectively. However, as ever there will almost certainly be short-term volatility due to economic and political uncertainty and events.

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 2021, the County Council held £298m of borrowing and £692m of investments. This is set out in further detail at Annex B.

23. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance sheet summary and forecast

	31/03/21 Actual £m	31/03/22 Estimate £m	31/03/23 Forecast £m	31/03/24 Forecast £m	31/03/25 Forecast £m
Capital Financing Requirement pre IFRS 16	776	784	770	763	723
Add: impact of IFRS 16 - Leases	-	-	19	17	15
New Capital Financing Requirement	**776**	**784**	**789**	**780**	**738**
Less: Other debt liabilities*:					
- Leases**	N/A	N/A	(19)	(17)	(15)
- Street Lighting PFI	(96)	(91)	(86)	(81)	(75)
- Waste Management Contract	(46)	(42)	(38)	(34)	(30)
Loans CFR	**634**	**651**	**646**	**648**	**618**
Less: External borrowing***:					
- Public Works Loans Board	(217)	(208)	(200)	(192)	(182)
- Other Loans (incl. LOBOs)	(41)	(41)	(41)	(41)	(41)
- Other short-term borrowing	(43)	(43)	(43)	(43)	(43)
Total external borrowing	**(301)**	**(292)**	**(284)**	**(276)**	**(266)**
Internal borrowing	**333**	**359**	**362**	**372**	**352**
Less: Balance sheet resources:					
- Usable Reserves	(755)	(733)	(688)	(671)	(600)
- Allowance for Working Capital	(123)	(270)	(345)	(195)	(270)
Balance sheet resources	**(878)**	**(1,003)**	**(1,033)**	**(866)**	**(870)**
Treasury investments	**(545)**	**(644)**	**(671)**	**(494)**	**(518)**

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

** IFRS 16 requires the County Council to change how it recognises its leases from 1 April 2022.

*** shows only loans to which the County Council is committed and excludes optional refinancing

24. 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.

25. It is forecast that the County Council will continue to take advantage of internal borrowing, which will increase through until 2023/24, whilst paying off Public Works Loan Board (PWLB) debt as maturities arise.

26. 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) to balance the budget in the interim year of the SP2023 savings programme (2022/23) and to meet the additional deficit now expected in 2023/24 as a result of increased social care costs. The County Council's investment balances are however due to initially rise over the forecast period and then fall during 2023/24, 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, and subject to any unforeseen cash flow requirements the County Council plans to prepay its employer's LGPS pension contributions for three years again on 1 April 2023.

27. 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 2022/23.

Liability benchmark

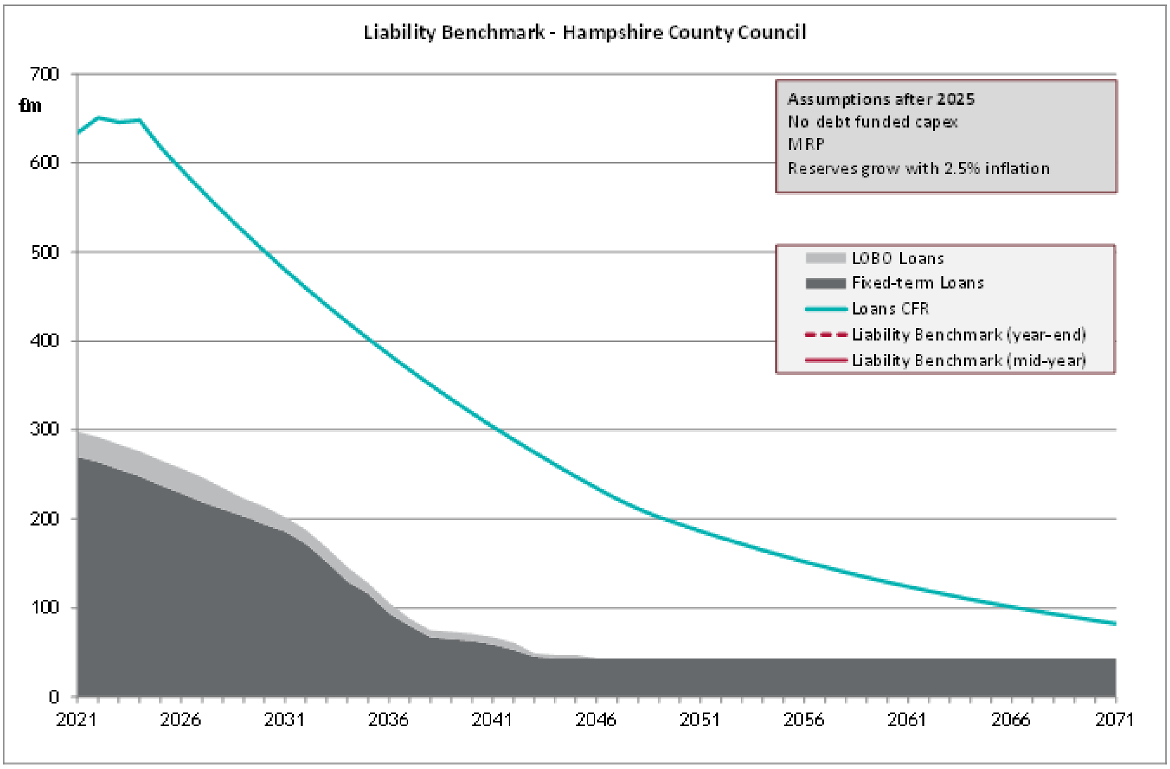
28. To compare the County Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31/03/21 Actual £m	31/03/22 Estimate £m	31/03/23 Forecast £m	31/03/24 Forecast £m	31/03/25 Forecast £m
Loans CFR	634	651	646	648	618
Less: Balance sheet resources	(878)	(1,003)	(1,033)	(866)	(870)
Net loans requirement	**(244)**	**(352)**	**(387)**	**(218)**	**(252)**
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**(234)**	**(342)**	**(377)**	**(208)**	**(242)**

29. At the start of the period, 31 March 2021, the County Council had a Loans CFR of £634m, external borrowing of £301m, balance sheet resources of £878m and a liability benchmark of -£234m. The difference of £333m

between the CFR and external borrowing is internal borrowing which is where the County Council has used its own resources to fund its borrowing requirement.



30. The liability benchmark is the lowest level of debt the County Council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The County Council expects a negative liability benchmark across the forecast period, which means that currently there is not a requirement to borrow, and that the County Council could potentially repay its current external borrowing and still fund the planned capital programme. Although the County Council would like to reduce its external borrowing, the premium charged by the PWLB means that it would cost more to repay the borrowing early than it would to repay at maturity, therefore at this time the County Council will not repay its external borrowing early and will continue to repay as maturities come due.

Borrowing Strategy

31. The County Council held £298.4m of loans as at 31 December 2021, which is £7.2m lower than the previous year; this reduction in borrowing balances primarily reflects the repayment of maturing Public Works Loan Board (PWLB) debt, which has not been replaced.

32. The loans are predominantly as a result of the County Council's strategy for funding previous years' capital programmes, but also includes amounts

held on behalf of others for governance or administrative purposes. The balance sheet forecast in Table 1 shows that the County Council does not expect to need to take on new external borrowing in 2022/23. 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 £790m, but does not currently expect to do so.

Objectives

33. 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

34. 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.

35. 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.

36. 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 2022/23, however should the County Council need to borrow any long-term amounts, the County Council will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate 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. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield, however the County Council's investment strategy does not support this activity and so will retain its access to PWLB loans.

37. 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.

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

Sources of borrowing

39. 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
- 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

40. 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

41. 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.

42. All of these loans have options during 2022/23, 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

43. These loans leave the County 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

44. 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. Currently the cost of premiums charged by the PWLB for repaying loans prior to maturity outweighs the cost of repaying at maturity.

Treasury Investment Strategy

45. 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 treasury investment balance has ranged between £480m and £788m.

46. Over the last 12 months the investment balance has risen due to a number of factors. The increase in investment balances partly reflects the higher balances typically seen at this time of year, due to the difference in timing between income and expenditure. Also, investment balances have been impacted by 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. It is now past the half-way point of the three-year period that the County Council pre-paid LGPS pension contributions for, and so it is expected that underlying core balances will continue to rise until the end of the three-year period. The Covid-19 pandemic has had a significant impact on the County Council's balances with Government grants received that will be spent over the coming months. Adult Services has experienced a significantly lower spend on social care activity as a consequence of excess deaths and alternative support being taken by residents, rather than be admitted to residential and nursing settings, albeit

the current rate of growth and price of care in the market are now rising.at an unprecedented speed.

Objectives

47. 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

48. The Covid-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which would likely to have fed through to negative interest rates on all low risk, short-term investment options, and in some instances negative interest rates were being seen. As the Bank of England has started to raise Bank Rate this eventuality is now not an immediate concern, however in the event of negative investment interest rates, 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

49. 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. This is especially the case for the estimated funds that are available for longer-term investment.

50. At 31 December 2021 approximately 85% of the County Council's investment balances were invested so that they were not subject to bail-in risk (that investors funds are taken to sure a failing bank), as they were invested in Government investments, secured bank bonds and pooled property, equity and multi-asset funds.

51. Of the 15% of investment balances that were subject to bail-in risk at 31 December 2021, 54% was held in very short-term notice accounts providing a comparatively favourable rate of interest in exchange for a short notice period within the 100-day maximum recommended by Arlingclose, 25% was held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in due to the high level of diversification

within these investments, and the remainder was held in overnight bank call accounts for liquidity purposes.

52. Unfortunately, the availability of appropriate longer term investment opportunities has been reduced in comparison to previous years due to an uncertain economic market, very low interest rates and the local authority market has been much reduced due to the amount of funding that has been supplied to the sector from Central Government in relation to the pandemic.

53. Further detail is provided at Annex B. This diversification is a continuation of the strategy adopted in 2015/16.

Business models

54. 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

55. The County Council agreed in 2021 to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £250m.

56. 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.

57. 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.

58. 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.

59. 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.

60. 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.

61. 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.

62. Just under £217m of the allocation to higher yielding investments has now been invested, with the remaining balance earmarked. The total amount invested includes £10m 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.

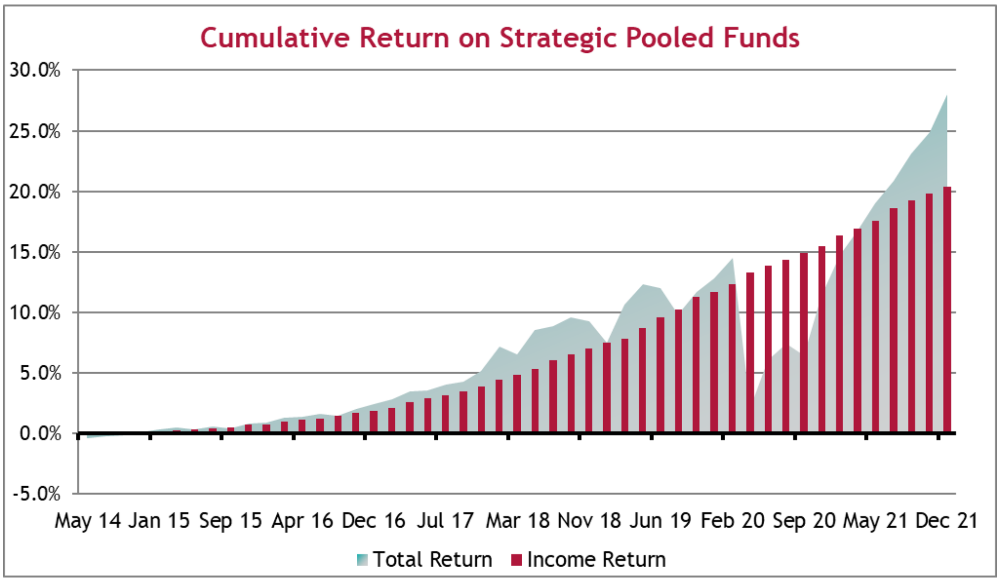
63. The current portfolio of investments targeting higher yields is summarised in Table 3.

Table 3: Investments targeting higher yields portfolio

Investment type*	Amount invested	Market value at 31/12/2021	Gain/(fall) in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Fixed deposits	22.1	22.1	-	-
Pooled property funds	75.0	83.1	8.1	9.4
Pooled equity funds	50.0	53.9	3.9	7.0
Pooled multi-asset funds	48.0	49.1	1.1	0.6
Total	**195.1**	**208.2**	**13.1**	**16.9**

* Excludes £10.2m invested in pooled funds on behalf of TBH JSPB

64. 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 now all pooled funds are showing capital above the amount originally invested, and with the dividends earned, the total return is significantly positive. The total return for pooled funds since purchase was 28% at 31 December 2021.



Note: the graph above excludes the performance related to £10.2m invested on behalf of Thames Basin Heaths JSPB

65. 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.

66. 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 two years.

67. The County Council is aware of the risks involved with investing in pooled funds that hold underlying investments in bonds, equities, property and other financial instruments. 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 £6.25m. This equates to 2.5% 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).

68. 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. This could reduce the income return of pooled funds to below the target of 4% per annum. However the County Council expects to achieve significantly greater income returns from these investments than from the rest of its investment portfolio. Table 4 provides an example of the difference in the annualised average income return from the higher yielding strategy at 31 December 2021 and the returns being achieved on the County Council's other investments for the 12 months to that date.

Table 4: Weighted Average Returns and Indicative Annualised Income

	Cash Balance 31/12/2021	Weighted Average Return	Annualised Income
	£m	%	£m
Short-term and Long-term Cash Investments	486.6	0.22	1.08
Investments Targeting Higher Yields	195.2	4.31	8.81
Total	**681.8**	**1.39**	**9.49**

Investment Limits

69. The maximum that will be lent to any one organisation (other than the UK Government) will be £90m, which is an increase in comparison to the previous TMSS due to temporarily increased investment balances. Although over the longer term it is expected that the County Council's cash balances will reduce, the ongoing pandemic has resulted in world supply issues and so the delivery of elements of the agreed capital programme has been delayed, which may result in raised investment balances for a short time. Increased limits allow the flexibility to ensure that all of the County Council's cash can be invested in accordance with this TMSS.

70. 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 5.

Table 5: Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£90m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£225m per manager

Approved Counterparties

71. The County Council may invest its surplus funds with any of the counterparty types in Table 6, subject to the limits shown:

Table 6: 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	£90m	Unlimited
Secured investments *	25 years	£90m	Unlimited
Banks (unsecured) *	13 months	£45m	Unlimited
Building societies (unsecured) *	13 months	£45m	£90m
Registered providers (unsecured) *	5 years	£45m	£90m
Money market funds *	n/a	£90m	Unlimited
Strategic pooled funds	n/a	£90m	£450m
Real estate investment trusts	n/a	£45m	£90m
Other investments *	5 years	£45m	£90m

This table must be read in conjunction with the notes below

*** Minimum credit rating**

72. 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.

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

Government

74. 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

75. 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)

76. 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)

77. 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

78. 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

79. 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)

80. 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

81. 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.

82. In addition the County Council can invest in an unrated corporate where it owns an interest in the corporation that gives participation in the company's governance, in which case a limit of £35m for an investment of up to 20 years will apply.

Operational bank accounts

83. 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

84. 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.

85. 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

86. 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.

87. 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

88. 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.

89. 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

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

Interest rate exposures

91. 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 7: Interest rate risk indicator

	31 December 2021	**Impact of +/- 1% interest rate change**
	£m	**£m**
Sums subject to variable interest rates:		
Investment	672	+/-6.7
Borrowing	(20)	+/-0.2

Maturity structure of borrowing

92. 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 8: 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%

93. 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

94. 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 9: Price risk indicator

	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£330m	£300m	£300m

Related Matters

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

Financial derivatives

96. 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).

97. 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.

98. 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.

99. 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

100. 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.

101. 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.

102. 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 15 November 2021, which gave an update of treasury matters. A further Arlingclose workshop has been planned for 2022.

Investment advisers

103. 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 Director of Corporate Operations, his staff and Arlingclose.

Markets in Financial Instruments Directive

104. 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.

Other Options Considered

105. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Corporate Operations believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 10.

Table 10: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in

Table 10: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
		the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Consultation, Equalities and Climate Change Impact Assessment

106. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

107. This report deals with the treasury management strategy for 2022/23. In line with the CIPFA code, the County Council's treasury management investment balances are invested prioritising security, liquidity and then yield. The County Council's investments in pooled funds, which include investments in equities and bonds issued by a number of companies with exposures to a variety of issues, including those associated with Climate Change. All of the County Council's pooled funds are managed by investment managers who are signatories to the PRI (Principles for Responsible Investment), managing investments in line with their own individual responsible investment policies. The County Council's Treasury Management Advisers, Arlingclose, have advised the County Council on the suitability and selection of its pooled funds, including the investment managers' management of Environmental, Social and Governance (ESG) issues including the impact of Climate Change.

108. There are no further climate change impacts as part of this report which are concerned with financial reporting.

Annex A – Arlingclose Economic & Interest Rate Forecast - December 2021

Underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official Gross Domestic Product (GDP) data indicates that growth was weakening into Quarter 4 of 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The Consumer Price Index (CPI) rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the Monetary Policy Committee (MPC) to raise Bank Rate to 0.25% at the December 2021 meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – activity for Quarter 4 of 2021 and Quarter 1 of 2022 could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the Bank of England (BoE) and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Quarter 1 of 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
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 2021

Treasury investments position

Investments	31/08/2021 Balance £m	Net movement £m	31/12/2021 Balance £m	31/12/2021 Income return %	31/12/2021 Weighted average maturity years
Short term investments					
Banks and building societies:					
- Unsecured	114.6	(39.9)	74.7	0.07	0.08
- Secured	121.9	24.4	146.3	0.12	0.42
Money Market Funds	3.8	10.8	14.6	0.04	0.01
Government:					
- Local authorities	137.0	49.0	186.0	0.37	0.52
- UK treasury bills	15.0	13.0	28.0	0.15	0.32
- Supranational banks	0.0	10.0	10.0	0.14	0.96
- UK gilts	20.0	(20.0)	-	-	-
Cash Plus Funds	10.0	-	10.0	0.55	0.02
	422.3	47.3	469.6	0.22	0.39
Long term investments					
Banks and building societies:					
- Secured	32.5	(15.5)	17.0	0.29	1.26
Government:					
- Local authorities	10.0	(10.0)	-	-	-
	42.5	(25.5)	17.0	0.29	1.26
Long term investments – higher yielding strategy					
Government:					
- Local authorities	21.9	0.3	22.2	4.44	11.58
Pooled funds:					
- Pooled property*	75.0	-	75.0	3.60	N/A
- Pooled equity*	50.0	-	50.0	5.58	N/A
- Pooled multi-asset*	48.0	-	48.0	4.02	N/A
	194.9	0.3	195.2	4.31	11.58
Total Investments	**659.7**	**22.1**	**681.8**	**1.39**	**0.69**
Thames Basin Heath pooled fund investments	10.2	-	10.2		
Total	**669.9**	**22.1**	**692.0**		

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2021 based on the market value of investments 12 months earlier.

Treasury management position	**31/12/2021 Balance £m**	**31/12/2021 Rate %**
External Borrowing:		
- PWLB Fixed Rate	(214.0)	(4.74)
- Other Loans (including LOBO Loans)	(41.2)	(4.35)
- Other Short-term Borrowing*	(43.2)	N/A
Total External Borrowing	(298.4)	(4.00)
Other Long-Term Liabilities:		
- Street Lighting PFI	(91.0)	
- Waste Management Contract	(42.1)	
- Leases	0.0	
Total Other Long-Term Liabilities	(133.1)	
Total Gross External Debt	**(431.5)**	
Investments	**692.0**	**1.44**
Net (Debt) / Investments	**260.5**	

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
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.

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	3 March 2022
Title:	Minutes of the Hampshire Pension Fund Panel and Board – 28 September 2021 (Public)
Report From:	Chief Executive

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 public minutes from the meeting of the Hampshire Pension Fund Panel and Board which took place on 28 September 2021.

Recommendation

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:

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

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

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is 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 in the Mitchell Room on Tuesday, 28th September, 2021

PRESENT

Chairman:
Councillor M. Kemp-Gee

Vice-Chairman:
* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

A. Dowden	* J. Glen
* D. Hiscock	A. Joy
P. Latham	* D. Mellor
* R. Mocatta	* T. Davies
* D. Drew	

Employer Representatives (Co-opted members):
* Councillor R. Harwood (Southampton City Council)
Councillor P. Taylor (District Councils - Rushmoor Borough Council)
Dr L Bartle (University of Portsmouth)
Councillor C. Corkery (Portsmouth City Council)

Scheme Member Representatives (Co-opted members):
* Dr C. Allen (pensioners' representative)
* Mr N. Wood (scheme members representative)
* Ms L. Gowland (deferred members' representative)
Mrs S. Manchester (substitute scheme member representative)

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

19. **APOLOGIES FOR ABSENCE**

Councillors Kemp-Gee, Joy, Latham, Dowden, Taylor, Corkery and Dr Bartle sent their apologies.

20. **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.

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

The minutes of the previous meeting held on 27 July 2021 were confirmed.

22. **DEPUTATIONS**

In accordance with Standing Order 12, the Panel and Board received a deputation from Ms Kerrie Sinclair representing the Dirty Money campaign, a group of Hampshire Pension Fund members, industry experts and environmental campaigners. The group is urging that the Pension Fund and Access Pool assets fund climate repair, not climate damage.

Ms Sinclair said that we need all those with their hands on the levers of financial and political power to step up and we need sustainable capitalism. She quoted the economist Nicholas Stern, who has said if we’re to have a chance of controlling it [Climate Change], and to stop it from spiralling away, we need net zero by 2050 (or sooner) to hold at a 1.5C [temperature increase].

Ms Sinclair asserted that investment must flow to companies supplying the goods and services, innovation and impetus, to build the sustainable global economy, not flow to those still locking us in to using oil, coal or gas for which there are no zero-emissions adaptations.

Ms Sinclair highlighted the best practice of asset owners such as Allianz and Aviva Investors, who are members of the Net-Zero Asset Owner Alliance who have set 1.5C-aligned, near-term, portfolio-wide decarbonisation targets including Scopes 1, 2 and 3. Similarly the Wiltshire Pension Fund has added the belief to its Investment Strategy Statement (ISS) ‘to protect the Fund’s investments into the future, the Fund supports a global warming scenario of 2C or lower and states an ambition to achieve net-zero emissions across all investment portfolios by 2050’. Wiltshire consulted with its employers who supported this belief.

The Dirty Money Campaign asking the Hampshire Pension Fund to revise its the ISS to embed the net-zero by 2050-or-sooner portfolio-wide decarbonisation, to specify the commitment to investing in line with guarding 1.5C, and to conduct a consultation. Ms Sinclair pointed to the Pension Fund having received about 100 emails regarding aligning the portfolio to guard the 1.5C limit, which should not be compared to the total membership of more than 183,000 as she suggested most people are trying to survive, particularly amid this deadly pandemic, and don’t know what’s at stake and what’s required.

Ms Sinclair criticised the Pension Fund's Global Custodian who's CEO has said 'we need fossil fuels for decades to come'. Ms Sinclair urged the Pension Fund to fire JP Morgan replace them with the Brunel Pool.

Ms Sinclair finished by stating that Private investors can't do this alone and governments still aren't doing enough and that the Dirty Money campaign calls on the Hampshire Pension Fund to:

1. Produce a position statement on managing its portfolios to align with the Paris agreement of limiting our temperature increase to 1.5C.

2. Create a strategy and timetable for achieving this alignment

3. Report, consult and be advised by its members on its investment principles and how they are achieved

4. Call on members of the ACCESS Pool to become members of a 1.5 degrees Celsius-focused asset owner alliance or initiative such as the Net-Zero Asset Owner Alliance or the IIGCC's Net-Zero Investment Framework. This is the action taken in recent weeks by the Wiltshire Pension Fund committee and other funds in its pool.

23. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Cllr Harwood and Rob Carr to his first meeting as Director of Corporate Operations.

The Chairman confirmed for the Members that the Pension Fund had successfully been accepted as a signature of the revised 2020 Stewardship Code. As one of only six LGPS funds and three pools accepted as signatories, this reflected well on Hampshire.

The Chairman asked Cllr Mellor to feedback to the committee on the Local Government Chronicle (LGC) conference he recently attended with Cllr Kemp-Gee. Cllr Mellor noted that the main focus of the event were the topics of investment pooling and Environmental, Social and Governance (ESG) investment issues.

24. **MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE - 7 SEPTEMBER 2021**

The minutes of the RI Sub-committee held on 7 September 2021 were noted.

25. **TRAINING REPORT**

The Panel and Board considered a report of the Director of Corporate Operations (item 7 in the Minute Book) setting out the proposed training arrangements for members of the Pension Fund Panel and Board in 2021/22. In particular members noted the importance of training for Panel and Board members in their role in the governance of the Pension Fund and their regulatory responsibilities as Pension Committee and Board members. The Director presented a draft training plan which had been produced following the analysis of the committee members' completed Training Needs Analyses.

The Director recommended Hampshire subscribes to the Hymans Robertson LGPS Online Learning Academy training modules at a cost of £5,000 per year. The Learning Academy will provide Panel and Board members and senior officers six modules designed to cover the requirements of the Scheme Advisory Board's (SAB) Good Governance review which Hymans undertook for the SAB. Officers and the Chairman have had a demonstration of the training from West Sussex Pension Fund, who have already commissioned it. A training session will be included in the training programme to demonstrate the LGPS Online Learning Academy to Members and answer any questions.

RESOLVED:

(a) The Panel and Board agreed to the subscribe to the Hymans Robertson LGPS Online Learning Academy at a cost of £5,000 per annum and in doing so also agree that all Panel and Board members will complete this essential training.

(b) That the Training Policy and Plan for 2020/21 were approved.

(c) That the proposed training arrangements and remainder of the report were noted.

26. **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.

27. **CONFIRMATION OF THE EXEMPT MINUTES OF 27 JULY 2021**

The exempt minutes of the Pension Fund Panel and Board held on 27 July 2021 were confirmed.

28. **EXEMPT MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE ON 7 SEPTEMBER 2021**

The exempt minutes of the RI Sub-committee held on 7 September 2021 were noted.

29. **ACCESS DRAFT RESPONSIBLE INVESTMENT GUIDELINES**

The Panel and Board considered the exempt appendix from the Director of Corporate Operations (Item 11 in the Minute Book) to allow the Members to consider the draft ACCESS RI guidelines. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

30. **ACTUARY CONTRACT**

The Panel and Board considered the exempt appendix from the Director of Corporate Operations (Item 12 in the Minute Book) proposing an extension to the Pension Fund's actuary's contract. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

31. **INVESTMENTS - UBS FACTOR INVESTING PORTFOLIO - OPTIONS FOR CARBON REDUCTION**

The Panel and Board considered the exempt appendix from the Director of Corporate Operations (Item 13 in the Minute Book) on options for reducing the carbon footprint of the investments in the UBS passive factor portfolios. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

32. **INVESTMENT - PROPERTY INVESTMENT PORTFOLIO**

The Panel and Board considered an exempt report from the Director of Corporate Operations (Item 14 in the Minute Book) updating the Panel and Board on its UK property portfolio. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

33. **INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO**

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

34. **INVESTMENT - INVESTMENT UPDATE**

The Panel and Board received and a report from the Director of Corporate Operations (Item 16 in the Minute Book) updating the Panel and Board on the Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

Chairman,

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