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Hampshire County Council

NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Wednesday, 27th September, 2023 at 10.30 am
Place	Chute Room, EII Court South, 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 and available for repeat viewing, it may also be recorded and filmed by the press and public. Filming or recording is only permitted in the meeting room whilst the meeting is taking place so must stop when the meeting is either adjourned or closed. Filming is not permitted elsewhere in the building at any time. 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 25 MAY 2023** (Pages 5 - 8)

   To confirm the minutes of the previous meeting.

4. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

5. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

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

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

7. EXTERNAL AUDIT REPORT 2021/22 - HAMPSHIRE COUNTY COUNCIL (Pages 15 - 74)

To receive a report from the external auditors, Ernst and Young, presenting the preliminary audit conclusion in relation to the audit of Hampshire County Council for the year ending 31 March 2022.

8. EXTERNAL AUDIT - DRAFT AUDIT RESULTS 2021/22 - HAMPSHIRE PENSION FUND (Pages 75 - 116)

To receive a report from the external auditors, Ernst and Young, presenting an update against the audit of the Hampshire Pension Fund for the year ending 31 March 2022.

9. STATEMENT OF ACCOUNTS 2021/22 (Pages 117 - 326)

To receive a report of the Deputy Chief Executive and Director of Corporate Operations, seeking approval for the Statement of Accounts for Hampshire County Council and the Hampshire Pension Fund for the period ending 31 March 2022.

10. EXTERNAL AUDIT PLAN 2022/23 - HAMPSHIRE PENSION FUND

To receive a report from the eternal auditors, presenting the Audit planning report for the Hampshire Pension Fund for the year ending 31 March 2023.

11. **INTERNAL AUDIT ANNUAL REPORT & OPINION 2022/23** (Pages 327 - 356)

To receive a report of the Deputy Chief Executive and Director of Corporate Operations, providing the Audit Committee with the Chief Internal Auditors opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2023.

12. **GOVERNANCE STATEMENT 2022/23** (Pages 357 - 388)

To consider a report of the Director of People and Organisation and Director of Corporate Operations presenting the Annual Governance Statement.

13. **STATEMENT OF ACCOUNTS 2022/23** (Pages 389 - 402)

To receive a report of the Deputy Chief Executive and Director of Corporate Operations, seeking approval for the Statement of Accounts for Hampshire County Council and the Hampshire Pension Fund for the period ending 31 March 2023.

14. **TREASURY MANAGEMENT OUTTURN REPORT 2022/23** (Pages 403 - 420)

To receive a report of the Deputy Chief Executive and Director of Corporate Operations providing an update on the performance of the treasury management function during 2022/23.

15. **TREASURY MANAGEMENT REPORT Q1 2023/24** (Pages 421 - 438)

To receive a report from the Deputy Chief Executive and Director of Corporate Operations, providing a quarterly update of the treasury management prudential indicators.

16. **INTERNAL AUDIT PLAN 2023/24** (Pages 439 - 460)

To receive a report Deputy Chief Executive and Director of Corporate Operations, providing the Audit Committee with an overview of the Internal Audit Plan 2023 – 2024.

17. **INTERNAL AUDIT CHARTER 2023/24** (Pages 461 - 474)

To receive a report of the Deputy Chief Executive and Director of Corporate Operations, presenting the Internal Audit Charter 2023 – 2024, in accordance with the requirements of the Public Sector Internal Audit Standards.

18. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 24 MARCH 2023 (PUBLIC) (Pages 475 - 482)

To receive the public minutes of the Hampshire Pension Fund Panel and Board meeting held on 24 March 2023.

19. 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.

20. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 24 MARCH 2023 (EXEMPT) (Pages 483 - 494)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 24 March 2023.

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.

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at the castle, Winchester on Thursday, 25th May, 2023

Chairman:
* Councillor Derek Mellor

* Councillor Tim Davies
* Councillor Ryan Brent
Councillor Steven Broomfield
Councillor Juliet Henderson
* Councillor Dominic Hiscock
Councillor Keith House
* Councillor Mark Kemp-Gee
* Councillor Michael Thierry

*Present

104. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Steven Broomfield, Keith House and Juliet Henderson.

105. **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.

No declarations were made.

106. **MINUTES OF PREVIOUS MEETING HELD ON 2 MARCH 2023**

The minutes of the meeting held on 2 March 2023 were agreed as a correct record and signed by the Chairman.

107. **DEPUTATIONS**

No deputations were received by the Committee on this occasion.

The Chairman announced that item seven would be brought and taken as item five, to be followed by Chairman’s announcements as item six and the External Audit Update as item seven.

108. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Councillor Ryan Brent, who had recently been appointed to the Committee, and noted that Councillor Juliet Henderson had been appointed as a full member of the Committee, having previously been a deputy member, and welcomed her participation at the next meeting.

109. **EXTERNAL AUDIT 2021/2022 UPDATE**

The Committee received two reports under this item, a position statement from the Deputy Chief Executive and Director of Corporate Operations and an update from the external auditors, Ernst and Young, on the status of the audit of Hampshire County Council for the year ending 31 March 2022.

The Deputy Chief Executive introduced the position statement, explaining that the national delay caused by the issues surrounding the valuation of infrastructure assets had meant that a reassessment of the pension valuation figures was required, due to the delay in completion of the audit. Asides that and a few minor technical items to be resolved the audit was nearing completion. The Deputy Chief Executive was clear that the position was not of the external auditors making, and had resulted from the national issues. Members heard that the external auditors were engaging with the actuaries and pensions administration teams to produce a final calculation of the pension valuation. Members heard that, after July, the auditors would focus their entire capacity on completing any outstanding local authority audits ready for sign off and would not allow any further drift within the remit of their control.

In response to members questions it was heard that:

- This was a national issue and most other local authorities were in the same position, and Members heard that central government would be appointing a select committee to review this and Ernst and Young had been invited to contribute to this work.
- The statutory instrument provided a short term solution, for the next three years, to the issue of valuing infrastructure assets, and would allow the necessary time for accounting bodies to determine a longer term solution.
- It was anticipated that the valuation of the pension fund at the end of March 2023 would be below that in March 2022, as a result of a number of well understood and monitored issues. The auditors were required to consider what information was available to the actuary as at March 2022, and whether this could have made a material difference to their estimated value. Providing this work could be completed swiftly, and the testing outcome was clear, the auditors hoped to have the audit completed shortly after the end of July.
- Due to the delays from the 2021/22 audit, progress on the 2022/23 audit was significantly delayed. At this point in the year approximately 30% of the audit would normally be completed. The auditors hoped to have the 2022/23 audit completed by the end of December, but Members heard this could be postponed up until March 2024.

- The Deputy Chief Executive would provide a written update on progress against the 2021/22 audit, once the pension testing was completed.

Councillor Kemp-Gee left the meeting at this point.

RESOLVED:

- That the Audit Committee notes the position statement provided by the Chief Financial Officer on progress with completion of the 2021/22 audit of the statement of accounts
- That the Audit Committee received and notes the update from the external auditors.

110. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS

The Committee considered the report of the Director of Universal Services, regarding the County Council's use of regulated investigatory powers.

It was observed that there had been no use of powers during the previous year and in response to members questions it was heard that powers were only used when required and that this was reflective of the usage of powers by local authorities across the country.

RESOLVED:

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

111. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 16 DECEMBER 2022 (LESS EXEMPT)

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 16 December 2022.

112. EXCLUSION OF THE PRESS AND PUBLIC

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

113. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 16 DECEMBER 2022 (EXEMPT)

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 16 December 2022.

Chairman, 27 September 2023

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	27 September 2023
Title:	Information Compliance – Use of Regulated Investigatory Powers
Report From:	Patrick Blogg, Director, Universal Services

Contact name: Richard Strawson, Head of Trading Standards

Tel: 0370 779 3973 **Email:** richard.strawson@hants.gov.uk

Purpose of this Report

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

Recommendation

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

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Quarterly Reporting of Surveillance

Number of Authorisations by Quarter (1 April 2023 – 31 March 2024)

Direct Surveillance			
	Purpose of Surveillance		
2023-24 Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2			
3			
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			
3			
4			
Total -	**0**	**0**	**0**

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

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

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	27 September 2023
Title:	External Audit Report 2021/22 - Hampshire County Council
Report From:	Ernst and Young LLP (external auditors)

Contact name: Sarah Devaney

Tel: 02380 382000 **Email:** Sarah.Devaney@uk.ey.com

Purpose of this Report

1. The purpose of this report is to present to the Audit Committee the preliminary audit conclusion in relation to the audit of Hampshire County Council for the year ending 31 March 2022.

Recommendation

2. That the Audit Committee receives and notes the Hampshire County Council Audit Reports for year ending 31 March 2022.

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
Hampshire County Council provisional audit results report	https://democracy.hants.gov.uk/documents/s99339/HCC%20-%20Audit%20Results%20Report%202021-22.pdf

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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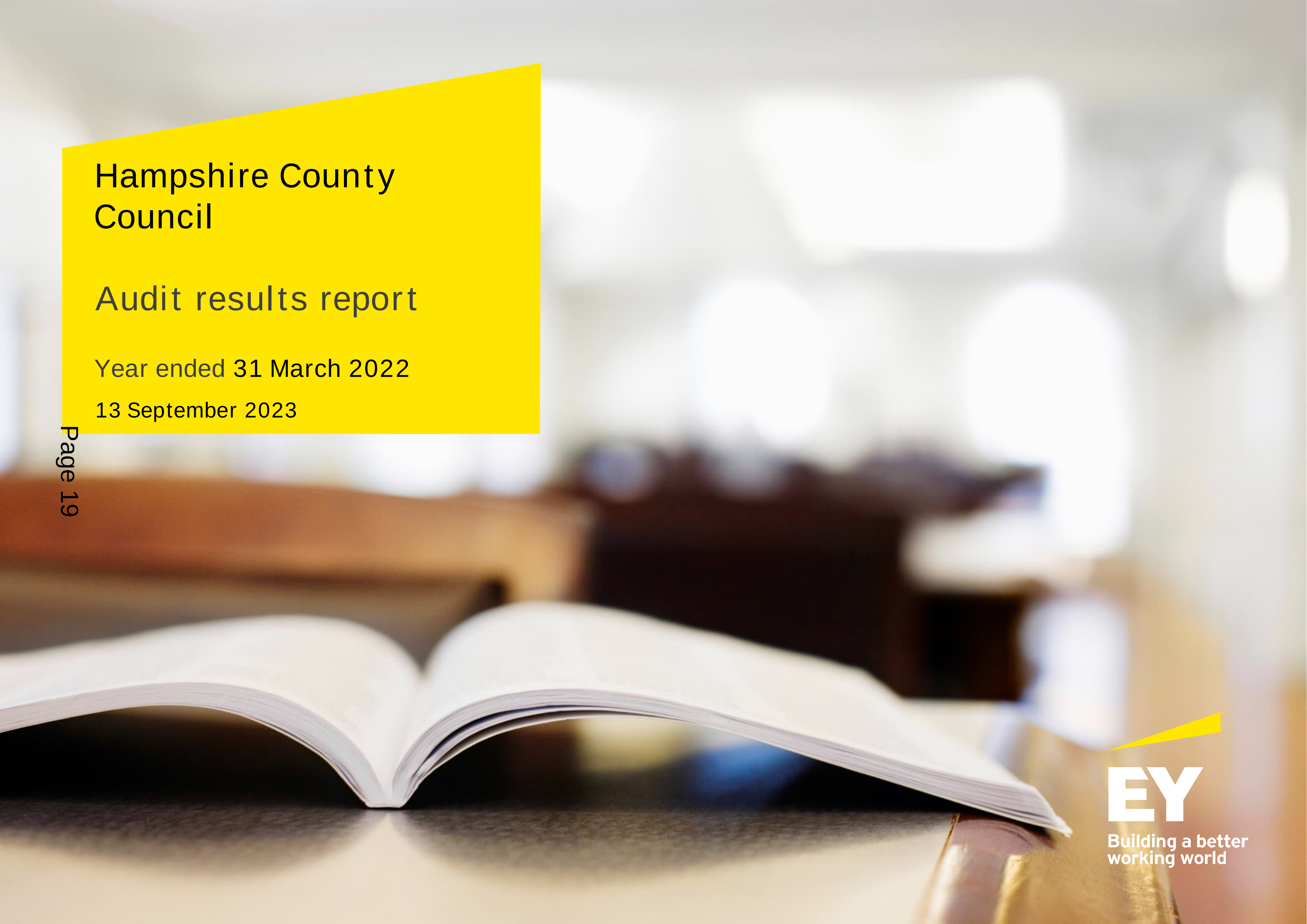
Hampshire County Council

Audit results report

Year ended 31 March 2022

13 September 2023



Audit Committee
Hampshire County Council
The Castle
Winchester
Hampshire
SO23 8UJ

13 September 2023

Dear Audit Committee Members

2022 Audit results report

We are pleased to attach our audit results report, summarising the results of our audit for the forthcoming meeting of the Audit Committee.

The audit is designed to express an opinion on the 2022 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Hampshire County Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Audit Committee, other members of the County Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the meeting on 27 September 2023.

Yours faithfully

Kevin Suter.

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

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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 July 2021)” issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) 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.

01 Executive Summary

Executive Summary

Scope update

Further to the draft audit results report presented at the September 2022 Audit Committee, and the status update paper presented at the May 2023 Audit Committee, there are no further scope updates that the Audit Committee should be aware of.

Status of the audit

Our audit work in respect of the County Council's opinion is substantially complete and we expect to issue an unqualified audit opinion.

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the County Council have put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the County Council a commentary against specified reporting criteria (see below) on the arrangements the County Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Status of the audit – Value for Money

In the Audit Plan we reported that we had yet to complete our value for money (VFM) risk assessment, but presented to the Committee that we had identified one risk of against the three reporting criteria, specifically financial sustainability, at that time.

We have completed our risk assessment, and revisited our assessment through to the on completion of the audit of the financial statements and remain satisfied that there are no other risks identified.

We have concluded our procedures to address the identified risk – further details of which can be seen on page 25. We have no matters to report by exception in the auditor's report (see Section 03).

Executive Summary

Audit differences

- Uncorrected misstatements increase the deficit of provision of service by £16m of which £7m relates to current-year differences.
- Management have corrected misstatements due to timing of notifications from collection bodies of £42m. They have also corrected the decrease in pension liability of £239m that has arisen as a result of 2022 Triennial Valuation being finalised.

We also note that there have been a number suggested amends to disclosures and narrative which have been adjusted for by management.

Details can be found in Section 4; Audit Differences.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the County Council. We have no matters to report as a result of this work.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission 2021/22. We will report any matters arising to the Audit Committee, and certify the completion of the audit after these procedures are completed.

We have no other matters to report.

Control observations

We have identified a number of deficiencies in the design or operation of internal controls that might result in a material misstatement in your financial statements and which is unknown to you. Further detail can be found at Section 7.

Independence

Please refer to Section 9 for our update on Independence.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Hampshire County Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the “Areas of Audit Focus" section of this report.

Audit findings and conclusions: Inappropriate capitalisation of revenue expenditure due to fraud or error

- We have no findings to report to the Audit Committee

Audit findings and conclusions: Misstatements due to fraud or error

- We have no findings to report to the Audit Committee

Audit findings and conclusions: Infrastructure Assets

- We have no findings to report to the Audit Committee

Audit findings and conclusions: Valuation of Investment Properties and Land & Buildings

- We have identified errors in our testing of investment properties and land & buildings valuations. These errors remain unadjusted by management as they are not deemed material.

Audit findings and conclusions: IAS 19 Pension Accounting

- We have engaged our specialists to assist in our conclusions over the valuation of the pension liability.
- The 2022 triennial valuation became available on 31 March 2023. We requested management obtain a revised IAS 19 report which saw a decrease in the pension liability of £239m which has been adjusted by management.

Audit findings and conclusions: Private Financing Initiative (PFI)

- We have engaged our specialists to assist in our conclusions over the accuracy of the streetlighting model following the recommendations made in the prior year as we have identified there are still some differences in contingent rental between models. These errors remain unadjusted by management as they are not deemed material.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

02 Areas of Audit Focus

Significant Risk

Inappropriate capitalisation of revenue expenditure (risk of fraud in revenue and expenditure recognition)

What is the risk?

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.

The risk in local government is in areas where management make judgements that impact whether material items of expenditure are financed from capital or revenue resources.

As such we associate this risk with capital additions.

What judgements are we focused on?

There is a risk that management will inappropriately capitalize revenue expenditure to improve the financial position of the general fund. Capitalized revenue expenditure can be funded through borrowing with only minimal minimum revenue provision ("MRP") charges hitting the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

Due to the environment the County Council operates in there could be incentive to improve the general fund balance.

As such we have focussed on significant additions to PPE and managements judgement as to what they recognise as capital and what they recognise as revenue spend.

What did we do?

For a sample of recorded capital additions we examined invoices, capital expenditure authorisations and other data that support the appropriateness of these additions, including that they have been recorded in the correct period.

We ensured that the items are capital in nature as per the definition of capital expenditure in IAS 16, and did not include revenue items.

We followed a fully substantive audit approach and utilised our data analytics capabilities to assist with our work through identifying high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

We have completed our testing in line with the planned audit procedures

Overall our audit work has not identified any material issues or unusual transactions to indicate any misreporting of the County Council's financial position.

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

The risk of management override at the County Council is mainly through the possibility that management could override controls and manipulate in-year financial transactions that have an impact on the General Fund's medium- to longer-term projected financial position.

The risk is focused in non-routine transactions as they are not protected by system controls and the robust segregation of duties in routine transactions. These non-routine and estimation transactions are also more subjective and therefore more susceptible to management override. We are specific that at the authorities, this risk only manifests itself in any estimates and judgements that impact the General Fund.

What did we do?

- We enquired of management about risks of fraud and the controls put in place to address those risks.
- We gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias;
- We evaluated the business rationale for any significant unusual transactions; and
- We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluate for business rationale.

What are our conclusions?

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 County Council's normal course of business.

Significant risk

Infrastructure Assets

What is the risk?

Infrastructure Assets are defined under the CIPFA code as taken to mean the network of highways, footways and cycleways and the structures, lighting and other assets that are directly associated with them.

As highlighted previously, an issue was raised via the NAO's Local Government Technical Group in May 2022 as to whether local authorities should be assessing if there is any undepreciated costs remaining within the balance sheet for the replaced components that need to be derecognised when the subsequent expenditure is added. This may also lead to issues related to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost.

We identified that the Council does not record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. This means the Council would be unable to identify the cost and accumulated depreciation balances that need to be derecognised which could have a material impact on the 2021/22 financial statements.

As a result of the issue having an impact across a large number of councils nationally action has been taken by DLUHC and CIPFA to provide a temporary solution to prevent the issue resulting in qualified accounts and prior period adjustments.

DLUHC issued a statutory instrument, The Local Authorities (Capital Finance and accounting) (England) (Amendment) Regulation 2022, which became extant on 25 December 2022. See The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 (legislation.gov.uk).

The SI relates to a financial year beginning on or before 1st April 2024 and in respect of which a certificate of audit completion has not been issued.

CIPFA issued an update to the Code of Practice on Local Authority Accounting in November 2022

What judgements are we focused on?

The risk is that the gross cost and gross accumulated depreciation of the Council's infrastructure assets are materially overstated, as assets or components that have been replaced are no longer recognised.

This may have no impact on the net book value if the assets were fully depreciated at the point of replacement, but if not then the net book value may also be materially misstated.

Furthermore, the Council needs to be able to demonstrate that it can associate the recorded values to specific identifiable assets; that they exist at the balance sheet date and are held at an appropriate value and that the Statutory Instrument and the Code update have been appropriately applied.

Significant risk

Infrastructure Assets – continued

What did we do?

- Confirmed the first financial year they are applying the statutory instrument is for 2021/22.
- Checked the disclosure of infrastructure assets is in accordance with the Cipfa Code adaptation.
- Agreed the opening balance for infrastructure assets to the closing balance on the prior year audited financial statements
- Ensured the financial statements include a disclosure note setting out the determination applied
- We reviewed the accounting policies to ensure they clearly set out how HCC is accounting for infrastructure assets. Accounting policies include commentary on statutory prescriptions and depreciation.
- Tested in year movements (additions, derecognition, depreciation) of infrastructure assets

What are our conclusions?

Based on the work performed, in line with the above procedures, we are satisfied that the Statutory Instrument and the Code update have been appropriately applied, the accounting policies and disclosure notes are complete and accurate and that depreciation is not materially misstated.

The solution implemented by CIPFA is temporary. It aims to review the accounting requirements for application in future Codes.

We would recommend that the Council:

- engages with the CIPFA review, to ensure the solution reached is practicable; and
- reviews its accounting records to ensure it prepares as well as it can for future requirements when the temporary solution is removed.

Areas of Audit Focus

Valuation methods applied

What is the risk/area of focus?	What did we do?
<u>Valuation of Land and Buildings</u> Land and buildings is one of the most significant balances in the HCC's 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 have: • Considered the competence, capability and objectivity of the organisation's valuer; • Considered the scope of the valuer's work; • Ensured L&B assets have been revalued within a 5 year rolling programme as required by the Code; • Considered if there are any specific changes to assets that should have been communicated to the valuer; • Sample tested key inputs used by the valuer when producing valuations; • Considered the results of the valuer's work; • Challenged the assumptions used by the valuer by reference to external evidence; • Tested journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements; • Tested a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct. This has included involving our internal specialists for the valuation of the Council's share of the Manydown investment asset; • Reviewed assets that are not subject to valuation in 2021/22 to confirm the remaining asset base is not materially misstated; • Considered changes to useful economic lives as a result of the most recent valuation; and • Tested accounting entries have been correctly processed in the financial statements Conclusion: We have completed our testing in line with the procedures set out above. We identified misstatements in the valuation of land and buildings which, when projected equate to £3m. This is not material and as such management have not adjusted. We also identified misstatements in the valuation of investment properties which, when projected equate to £6.5m. This is not material and as such management have not adjusted. Within our Land & Buildings existence testing for the year ended 31 March 2022, we noted a number of assets with a nil Net Book Value (NBV) at the year end but that had a Gross Book Value (GBV) of greater than nil on the Fixed Asset Register (FAR). We reviewed these items and noted that these related to Academies. In line with the CIPFA code (module 10), when schools are transferred to Academies, the related assets should be de-recognised from the Local Authority's balance sheet and transferred to the balance sheet of the Academy. In this instance, management had reduced the NBV down to zero on the balance sheet but had not de-recognised the GBV and accumulated depreciation for these assets. This work identified a total balance of £78m of GBV and Accumulated Depreciation that should not be recognised by Hampshire County Council. This has been agreed and corrected by management by way of prior period correct – see page 21 for further detail.

Areas of Audit Focus

Valuation methods applied

What is the risk/area of focus?

Pension Liability Valuation

The Local County Council Accounting Code of Practice and IAS19 require the County Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The County Council must also do similar in respect of the Police Pension Fund.

Hampshire County Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet.

At 31 March 2022 this totals £1.5bn. The information disclosed is based on the IAS 19 reports issued to Hampshire County Council by the actuary to the County Council and also the Firefighter Pension Fund. Accounting for these schemes 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.

In the 2021/22 statement of accounts of the Council, the net defined benefit liability had originally been recorded based on the 31 March 2022 IAS 19 valuation report which uses the 2019 triennial valuation assumptions.

During the period of finalisation of the 2021/22 audit, the 2022 triennial valuation report has been issued and therefore the impact of this needed to be considered by both management and the audit team.

What did we do?

We have:

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hampshire County Council;
- Assessed the work of the LGPS Pension Fund actuary (AoN Hewitt) including the assumptions they used by relying on the work of PWC – Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team;
- Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and
- Reviewed and tested the accounting entries and disclosures made within the financial statements in relation to IAS19.
- Obtained and reviewed the revised IAS 19 results schedule updated for results of 2022 triennial valuation, including the assumptions used within – utilising the review performed by PWC. We engaged the EY actuarial team to assist with this review.
- Engaged the auditors of Hampshire Pension Fund to perform data testing over the information submitted to the actuary for the 2022 triennial valuation.
- Engaged EY actuarial team to re-run the liability calculation to ensure the revised rep ort complies with auditing standard ISA 540.

Conclusion:

We have completed our review of the accounting entries & disclosures and our review of the assumptions used by the actuaries.

We have been able to reconcile our roll forward with the figures provided by the actuary within 1.5% of the liability, which we judge to be acceptable.

We have performed the procedures noted above on the revised IAS 19 report and no issues were identified.

The revised IAS 19 report showed that the net pension liability reduced by £239m. As this was material, management have therefore adjusted for this within their 2021/22 Accounts.

Areas of Audit Focus

What is the risk/area of focus?	What did we do?
Private Finance Initiatives The Council has two PFI contracts in place, in respect of waste and street lighting, with liabilities amounting to £129 million in 2021/22. These were both operational and recognised in the Council's balance sheet as at 31 March 2022.	We have: • Reviewed for any changes in the financial model made from previous years and confirm the assumptions used to continue to be appropriate. • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements • We obtained an update on the recommendation raised in relating to the street lighting PFI in our 2020/21 audit results report. • We involved our EY specialist to review the updated streetlighting model which was updated by management in response to previous audit findings. Conclusion: We did not identify any issues in our testing of the waste PFI. We identified there were still differences in the street lighting PFI in relation to the contingent rental calculation with an impact of £4m to the CIES. This has not been adjusted by management as it is not material.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO HAMPSHIRE COUNTY COUNCIL

Opinion

We have audited the financial statements of Hampshire County Council for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Movement in Reserves Statement;
- Balance Sheet;
- Cash Flow Statement;
- Comprehensive Income and Expenditure Statement
- and related notes 1 to 30

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Hampshire County Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period to March 2025.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended);
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended);
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022

We have nothing to report in these respects

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities set out on page 32, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Draft audit report

Our opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Transport Act 2000,
- Education Act 2002 and school Standards and Framework Act 1998 (England),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020 and 2022,
- National Health Service Act 2006,
- The Local Audit and Accountability Act 2014 (as amended), and
- The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Hampshire County Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit and those charged with governance, and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Authority's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified criterion issued by the Comptroller and Audit General (C&AG) in December 2021, as to whether Hampshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Audit General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hampshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Draft audit report

Our opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Hampshire County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

Additionally, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Hampshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Corrected misstatements 31 March 2022 (Currency’000)	Effect on the current period:		Net assets (Decrease)/Increase				
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Equity Debit/ (Credit)
Errors							
Known differences:							
• Overstatement of pension liability, due to revised triennial valuation report (pg 14)	(234,175)	(4,964)				239,139	
• Misstatement in Council Tax & NDR precept – BS			35,535		(44,474)		8,939
• Misstatement in Council Tax & NDR precept - CIES		(7,076)	7,076				
Cumulative effect of corrected misstatements	(234,175)	(12,040)	42,611		(44,474)	239,139	8,939

Misstatements in the Council Tax and NDR precept arise as this information is provided by the collecting bodies after the production of the County Council’s accounts and is therefore due to timing.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2022 (Currency'000)	Effect on the current period:		Net assets (Decrease)/Increase				
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)	Equity Debit/(Credit)
Errors							
Known differences:							
• Capital grants understated	(3,121)		3,121				
• PPE & Investment Property Valuation	(3,268)			3,268			
Judgemental differences:							
• PFI Street Lighting Model differences		3,814				(3,814)	
• PPE Assets not valued in year	(9,201)			9,201			
Projected differences:							
• Existence of Furniture & Equipment				(3,099)			3,099
• Overstatement of debtors		3,116	(3,116)				
Balance sheet totals	(864,902)	17,692	729,518	4,950,976	(357,177)	(1,789,871)	(3,533,446)
Cumulative effect of uncorrected misstatements before turnaround effect	15,590	6,930	5	9,370	0	(3,814)	3,099
Turnaround effect (CIES impact of errors identified in 20/21)		9,064					
Cumulative effect of uncorrected misstatements, after turnaround effect	15,590	15,994	5	9,370	0	(3,814)	3,099

Audit Differences

Prior Year Adjustments

1. We noted that the accounts contain a prior year adjustment to correct omissions from the exit packages disclosures.

The exit packages note in prior years was incomplete as it did not include pension contributions in respect of added years, ex-gratia payments and other departures costs. It also did not include exit package payments related to schools.

Management did not have adequate processes to:

- Identify all exit packages requiring disclosure in the financial statements; or
- ensure compliance with the disclosure requirements of the Code of Practice in Local Authority Accounting related to exit packages

We note this has been rectified by the revised processes put in place to prepare the current year's accounts.

2. Within our PPE existence testing for the year ended 31 March 2022, we noted a number of assets with a nil Net Book Value (NBV) at the year end but that had a Gross Book Value (GBV) of greater than nil on the Fixed Asset Register (FAR). We reviewed these items and noted that these related to Academies.

In line with the CIPFA code (module 10), when schools are transferred to Academies, the related assets should be de-recognised from the Local Authority's balance sheet and transferred to the balance sheet of the Academy. In this instance, management had reduced the NBV down to zero on the balance sheet but had not de-recognised the GBV and accumulated depreciation for these assets.

This work identified a balance of £78m of GBV and Accumulated Depreciation that should not be recognised by Hampshire County Council. This has been agreed and corrected by management.

05 Value for Money

Value for money

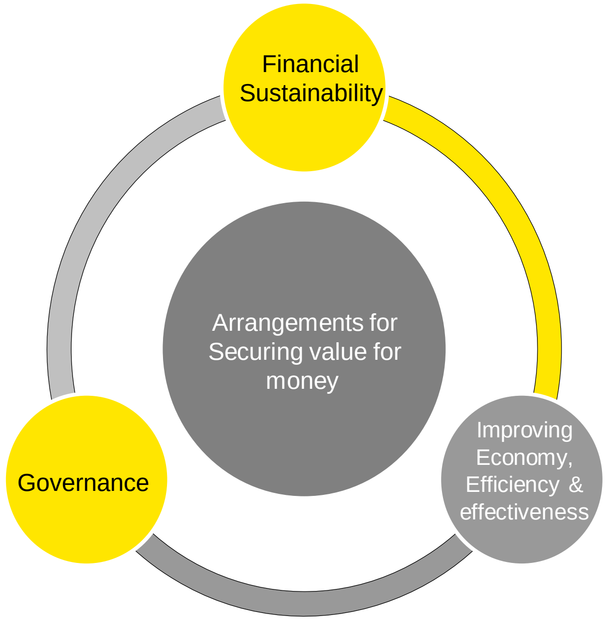
The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, The Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, The Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local County Council accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

Throughout the audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements. We identified one area of risk identified around the arrangements that the Council has in place in relation to financial sustainability – including the impact of Covid-19 on the medium term financial planning. We have identified this risk from the Chief Finance Officer's statements in the 2022/23 budget papers regarding the projected deficit in the medium term financial position to 2025/26, and that "without some form of Government intervention we are not financially sustainable in the medium term, even if we were to find some way of bridging the deficit to 2025/26".



Status of our VFM work

We have completed our work over value for money and we have gained an understanding of the arrangements management has in place, and received supporting evidence from management. Our view is that the Council has appropriate arrangements in place which addresses our identified risk.

We will issue our VFM commentary in the Auditor's Annual Report.

Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
We identified a risk around the arrangements that the Council has in place in relation to financial sustainability – including the impact of Covid-19 on the medium term financial planning. We have identified this risk from the Chief Finance Officer's statements in the 2022/23 budget papers regarding the projected deficit in the medium term financial position to 2025/26, and that " without some form of Government intervention we are not financially sustainable in the medium term, even if we were to find some way of bridging the deficit to 2025/26".	Financial Sustainability	- Reviewed budget papers - Reviewed annual budget setting process - Reviewed cabinet meeting minutes - Engaged in a number of discussions with management to understand the extent of the issue and their responses, obtained and reviewed supporting evidence.

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Findings

We are aware, from procedures performed, that there is a monthly financial resilience meeting of the Directors of services to monitor ongoing pressures. In addition, Management are engaging in individual MTFS sessions with Directors of services on the budget gaps and cost saving ideas. Management have maintained an open dialogue with DLUHC as they work through their action plan.

It is evident from our work performed that management has a detailed grasp of the issues and have put in place the necessary arrangements and processes in response. Therefore, in our judgement we assess the Council's arrangements to be appropriate and without significant weakness. More detail of the procedures performed will be provided in our VfM commentary which will be included in our Auditor's Annual Report.

Recommendation(s)

The County Council should maintain the level of monitoring and review it currently has in place whilst these strains/pressures continue.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2021/22 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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Whole of Government Accounts

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

We have not yet been able to perform the procedures required by the NAO on the Whole of Government Accounts submission. We will report any matters arising to the Audit Committee.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (as amended) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the County Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the County Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014 (as amended). We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the County Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations;

We have no significant findings to communicate.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the County Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the County Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a substantive approach (with some reliance on the ISAE 3402 report on the IBC), we have therefore not tested the operation of any controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Area	Related parties
Rating	Moderate
Observation	We identified a number of related party relationships that had not been identified during the preparation of the related party disclosure note. We were able to do additional procedures to conclude there were no transactions between HCC and these parties. In addition we noted one transaction that should have been disclosed in the SoA – this was corrected by management.
Impact	There is a risk that necessary disclosures are omitted and the Statement of Accounts are incomplete. As such we recommend management review the processes around related parties and returns from senior officers and design additional internal processes to gain sufficient assurance over completeness.
Management comment	

Assessment of Control Environment - continued

Area	Documentation retention	Rating	Medium
Observation	Through our testing of fixtures and fittings we identified that invoices are only retained for three years which resulted in additional procedures having to be performed to gain sufficient assurance over existence of these assets.		
Impact	There is a risk that management are not compliant with documentation retention legislation and as such should review and update policies to ensure compliance.		
Management comment			

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Area	Journal Posting	Rating	Low
Observation	We note that there is no 'official' authorisation process in place when processing journals within the system. We are aware that as a mitigating control, budget holders perform a review of their budgets on a regular basis however no evidence is kept on file of this review so there is no way to confirm that they have completed it.		
Impact	There is a risk that incorrect journals are posted to the system which may impact the financial statements if not identified. As such we recommend that HCC can improve the documentation of the process undertaken by budget holders to enhance this control by evidencing the review the budget holders complete in order to demonstrate it operates effectively.		
Management comment			

Assessment of Control Environment - continued

Area	Exit Packages	Rating	Low
Observation	Throughout our testing we identified some exit packages that had been recorded in the 2021/22 but the year in which the exit package related to was hard to determine due to: • The way in which the Note is compiled i.e. not being provided with complete information • Not having the appropriate supporting evidence or the incorrect information (i.e. wrong date) being included on the "leaver form"		
Impact	Being provided with incorrect information and/or not retaining the correct supporting evidence could lead to an incorrect disclosure being made in the Statement of Accounts. We therefore recommend that management review the process for compiling the Exit Packages note and ensure that there is an appropriate audit trail for their disclosure.		
Management comment			

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Area	Exit Packages	Rating	High
Observation	In 2021/22, a prior year adjustment was made to the 2020/21 exit package disclosure note due to the prior year disclosure not containing all necessary costs for the exit packages. In addition to this, management realised that the note in the prior year accounts also did not include employees who worked in schools maintained by the local authority and whose exit package costs should therefore be included in the exit packages note.		
Impact	We note that the exit package note is material by nature and therefore a prior period adjustment had to be made to the 2020/21 Accounts in the current year.		
Management comment			

Assessment of Control Environment - continued

Area	Land & Buildings Existence	Rating	Medium
Observation	The Property, Plant and Equipment (PPE) disclosure note in both the current and prior year financial statements was misstated as it incorrectly included gross book value and accumulated depreciation balances relating to Academies. Upon transfer of a school to an Academy, the Council should derecognise the school from their balance sheet as they no longer hold the risk and reward in relation to these assets. Management did not have adequate processes and controls to identify the balances in the financial statements.		
Impact	This resulted in a balance of £78m of GBV and Accumulated Depreciation that should not be recognised by Hampshire County Council and was therefore overstated in the disclosure note. We recommend management undertake a detailed review of the Fixed Asset Register on a periodic basis to ensure they remain satisfied that the assets rightfully belong on HCC balance sheet.		
Management comment			

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Area	Officers Remuneration	Rating	High
Observation	Throughout our testing, it came to light that not all Officer Remuneration costs had been considered in the banding disclosure. These costs were in relation to a salary sacrifice shared cost additional voluntary contribution (SSSCAVC) scheme that had not previously been included within the disclosure.		
Impact	Not having a complete information could lead to an incorrect disclosure being made in the Statement of Accounts. We therefore recommend that management review the process for compiling the Officer Remuneration note and ensure that they are reviewing all costs which form the disclosure.		
Management comment			

08 Data Analytics

Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2021/22 our use of these analysers in the County Council's audit increased having a digital audit "DigiGam" audit approach, using the County Council's full journal dataset in our planning and risk assessment procedures through to execution which included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

09 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the County Council, and its members and senior management and its affiliates, including all services provided by us and our network to the County Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. Further detail of all fees has been provided to the Audit Committee.

The non-audit fees relate to the independent Service Organisation Controls Type 2 Assurance Report for the Hampshire Integrated Business Centre (IBC).

To ensure our independence as external auditor to Hampshire County Council is not impaired, we are required to seek approval from PSAA (Public Sector Audit Appointments Ltd) to provide these non-audit services. This approval has been gained.

We have adopted the following safeguards:

- The work will be led and delivered by a separate Service Organisation Controls (SOC) reporting team. Members of the existing audit team at Hampshire County Council will not work on this project. The remuneration of the Engagement Lead and the audit team are not impacted by this project.
- The estimated fee is in line with market rates for this type of engagement. The engagement will have a clearly defined scope, as set out in the scope of work and this work would not influence our conduct of or the outcome of the audits.
- The SOC report issued will be generic in nature and not specific to a particular customer or IBC. The controls reviewed will be homogenous controls.
- The work is limited to review of control within the end processes at the IBC. It does not include any aspects of decision-making on behalf of the IBC or the Council. It will not involve giving any advice in relation to decisions the IBC/Council may take.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

	Proposed fee 2021/22	Note Ref	Final Fee 2020/21 determined by PSAA
	£		£
Scale Fee	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	49,074	1	12,944
Scale fee variation - new auditing standard and Value for Money requirements	16,455	2	16,455
Scale fee variation – PFI expert	910	3	910
IAS 19 protocol fees	1,017	4	0
Scale fee variation – Other	TBC	5	0
Total audit	TBC		120,029
Total other non-audit services – ISAE 3402 report on IBC	56,500		56,500
Total fees	TBC		176,529

Notes:

1. In our 2019/20 audit we set out the basis for a requested rebasing of the scale fees due to changes in regulatory requirements. These are ongoing impacts, therefore, we have continued to include this request based on the same level of inputs. From 2020/21 the fee impact increased by 25%, as PSAA's scale fee rates have increased by 25%.
2. From 2020/21, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs, predominantly ISA540. The NAO's Code of Audit Practice 2020 also set out new requirements for our work and reporting on Value for Money. We have continued to include the impact at the lower end of the PSAA's communicated range, submitted in our 2020/21 fee variation proposal.
3. Fees in 20/21 relate to PFI expert required to quantify error as a result of error in streetlighting model. Model has been updated for 21/22 and we required our expert to review the changes and conclude on the remaining differences.
4. Fees are payable by the Pension Fund for the IAS19 protocol. HPF will not pay the fees, therefore, this is charged to each individual body.
5. We have incurred additional fees relating tom the infrastructure assets change of scope; review of the triennial valuation; additional procedures required to gain sufficient assurance over fixtures and fittings; and the audit of prior period adjustments identified through the course of the audit. We will quantify the additional scale fee and discuss with management prior to submission to the PSAA.

Other communications

EY Transparency Report 2022
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022: https://www.ey.com/en_uk/about-us/transparency-report

10 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

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Balance sheet category	Audit Approach in current year	Explanation for change
Trade receivables	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	No change
Tangible Fixed Assets	Substantively tested all relevant assertions	No change
Trade payables	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	No change
Cash, borrowings and investments	Substantively tested all relevant assertions	No change
Pension Liability	Substantively tested all relevant assertions. We engaged EY Pensions to assist with reviewing actuary model.	No change

Audit approach update - continued

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
PFI	Substantively tested all relevant assertions. We engaged an EY specialist to review the changes in the streetlighting model.	Substantively tested all relevant assertions. We engaged an EY specialist to review the changes in the streetlighting model.	No change
Developers Contributions	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Grants Received in Advance	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report dated May 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report dated May 2022
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	This Audit results report

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements	This Audit results report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	This Audit results report
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	This Audit results report

Appendix B

Required communications	What is reported?	Our Reporting to you — When and where
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	This Audit results report
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	This Audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report dated May 2022 and This Audit results report

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
	Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	This Audit results report
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	This Audit results report

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	This Audit results report
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	This Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Audit results report
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	This Audit results report
Code Requirements:	• Auditors Annual Report • VFM commentary	To be confirmed. Required within 3 months of giving the auditor's report.

Management representation letter

Ernst & Young
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Hampshire County Council ("the Council") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Hampshire County Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1.We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22

2.We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.

3.The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4.As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls

5.We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and as such we have not corrected these.

Management representation letter - continued

Management Rep Letter

6.We confirm the County Council does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with law and regulations, including fraud

1.We acknowledge that we are responsible to determine that the County Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2.We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3.We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4.We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

• involving financial improprieties;

•related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;

•related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

•involving management, or employees who have significant roles in internal controls, or others; or

• in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1.We have provided you with:

•Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

•Additional information that you have requested from us for the purpose of the audit; and

•Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2.All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

3.We have made available to you all minutes of the meetings of the Council and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].

4.We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter - continued

Management Rep Letter

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local County Council Accounting in the United Kingdom 2021/22.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1.All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2.We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent.

E. Going Concern

1.Note 28.1 to the financial statements discloses all the matters of which we are aware that are relevant to the County Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1.There have been no events , including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Climate-related matters

1.We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered including the impact resulting from the commitments made by the County Council, and reflected in the financial statements.

2.The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local County Council Accounting in the United Kingdom 2021/22 , aligned with the statements we have made in the other information or other public communications made by us.

Management representation letter - continued

Management Rep Letter

J. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment properties, land and buildings, PFI and IAS19 pensions liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates

1.We confirm that the significant judgments made in making the valuation of investment properties, land and buildings, PFI and IAS19 pensions liability (the accounting estimates) have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

2.We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.

3.We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

5.We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.

6.We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements , including due to the COVID-19 pandemic.

M. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

Director of Corporate Operations

____

Chairman of the Audit Committee

Appendix E

Implementation of IFRS 16 Leases

In previous reports to the Audit Committee we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 has been further delayed. However, officers should be acting now to assess the County Council's leasing positions and secure the required information to ensure the County Council will be fully compliant with the Code when implemented. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	Management should: • Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. • Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases • Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The County Council needs to agree on certain policy choices. In particular: • Whether to adopt a portfolio approach • What low value threshold to set and agree with auditors • Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components • What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the County Council is lessee. However, there can be implications for some finance leases where the County Council is lessee; and potentially for sub-leases, where the County Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	27 September 2023
Title:	External Audit - Draft Audit Results 2021/22 - Hampshire Pension Fund
Report From:	Ernst and Young LLP (external auditors)

Contact name: Sarah Devaney

Tel: 02380 382000 **Email:** Sarah.Devaney@uk.ey.com

Purpose of this Report

1. The purpose of this report is to present to the Audit Committee an update against the audit of the Hampshire Pension Fund for the year ending 31 March 2022.

Recommendation

2. That the Audit Committee receives and notes the update against the audit of the Hampshire Pension Fund for the year ending 31 March 2022.

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
Hampshire Pension Fund provisional audit results report	https://democracy.hants.gov.uk/documents/s99340/Hampshire%20Pension%20Fund%20-%20Audit%20Results%20Report.pdf

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.

Hampshire Pension Fund

Audit results report

Year ended 31 March 2022

September 2023

Building a better working world

15 September 2023

Dear Audit Committee Members

We are pleased to attach an updated 2021/22 Audit Results Report for the forthcoming meeting of the Audit Committee. The substantive testing procedures which were outstanding at the date of our previous report are now complete. We will update the Committee at its meeting on 27 September 2023 and explain the remaining steps for the issue of our final opinion.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Hampshire Pension Fund’s accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. This report is intended solely for the information and use of the Audit Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 27 September 2023.

Yours faithfully

Helen Thompson

Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

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 Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hampshire Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hampshire Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented to the 26 May 2022 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan with the following updates.

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1% of the Fund's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£90.7 million	£68.0 million	£4.5 million
Final	£96.3 million	£72.2 million	£4.8 million

Status of the audit

Our audit work in respect of the Fund opinion is substantially complete. Since our previous report, we have completed the testing of level 3 assets. There were no issues arising from this testing. See Section 2 for further details.

The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- Agreement of all final amendments to the financial statements
- Update of our subsequent events procedures to the date of our opinion
- Receipt of a signed letter of management representation
- We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 with the audited pension fund financial statements. This will be done upon completion of the audit of the full annual statement of accounts of Hampshire County Council for the year ended 31 March 2022.

Audit differences

The Fund has amended notes 16 (Funding arrangements) and 17 (Actuarial present value of promised retirement benefits), using updated information from the 31 March 2022 triennial valuation, which has become available since the financial statements were issued in draft. There are no other adjusted or unadjusted audit differences which require your attention. Further detail is shown in section 4 of this report.

Executive Summary

Areas of audit focus

Our Audit Plan identified significant risks and areas of focus for our audit of the Pension Fund's financial statements. We summarise below our findings.

This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised in the "Areas of Audit Focus" section of this report.

Fraud risks	Findings & conclusions
Misstatements due to fraud or error	We carried out procedures to address fraud risks as set out in our Audit Plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach. We also performed a reconciliation between the fund managers reports and the custodian reports to address the risk of manipulation of asset valuations. We have completed our work in this area and have no matters to bring to your attention.

Significant risk	Findings & conclusions
Valuation of complex investments (Level 3 Fair Value hierarchy)	We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's complex investments disclosed as level 3 in the fair value hierarchy, and therefore inherently more difficult to value. We have completed our work in this area and have no matters to bring to your attention.

Areas of audit focus	Findings & conclusions
Valuation of non-exchange traded pooled funds (Level 2 Fair Value hierarchy)	We carried out procedures as set out in our Audit Plan to ensure that these investment valuations are supported. We have completed our work in this area and have no matters to bring to your attention.
Valuation of directly held property (Level 2 Fair Value hierarchy)	We sample tested key inputs, and challenged key assumptions, used by the valuer in producing the property valuation. We have completed our work in this area and have no matters to bring to your attention.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Independence

Please refer to Section 7 for our update on Independence.

02 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

The risk of management override at the HPF is mainly through the possibility that management could override controls and manipulate in-year financial transactions which intend to adjust the entity's reported Fund Account.

This could be done through manipulation of estimates including investment valuation, or through journals amending the values in the production of the financial statements from those provided by the custodian or fund managers.

What did we do?

- We enquired of management about risks of fraud and the controls put in place to address those risks.
- We gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- We considered the effectiveness of management's controls designed to address the risk of fraud.
- We re-performed the reconciliation between the fund managers report, custodians report, and the financial statements.
- We reviewed accounting estimates for evidence of management bias.
- We evaluated the business rationale for any significant unusual transactions.
- We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluate for business rationale.

What are our conclusions?

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 Hampshire Pension Fund's 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.

Significant Risk

Significant risk

Valuation of complex Investments (Level 3 Fair Value hierarchy)

What is the risk?

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.

What judgements are we focused on?

The majority of level 3 assets which the pension fund holds are held in separate investment vehicles which do not have a co-terminus balance sheet date with the pension fund. Where these investment vehicles' accounts have been audited we do not review the assumptions in the underlying asset and instead rely on the work performed by the investment vehicles auditors.

However, management and the fund managers need to assess whether there has been a significant movement in the fair value of the underlying assets of the investment vehicle between the audited balance sheet of the vehicle, and the pension fund's balance sheet date.

We therefore focused on this judgement, and performed analytical review procedures between the two dates to challenge management's assumption on any movement, or lack of movement.

What did we do?

We:

- reviewed the latest available audited accounts for the relevant funds and ensured there are no matters arising that highlight weaknesses in the fund's valuation;
- where the latest audited accounts were not as at 31 March 2022, we performed analytical procedures and other procedures to assess the valuation for reasonableness against our own expectations;
- reviewed the fund managers' latest controls report to assess whether the fund manager maintained appropriate controls to prevent and detect material misstatement in the pricing of assets; and
- tested that accounting entries were correctly processed in the financial statements.

What are our conclusions?

Since our previous report, we have completed the outstanding work on the four remaining Level 3 investments.

We were able to obtain sufficient supporting evidence for three of these. For the remaining asset, we commissioned our internal specialists to provide a valuation of the company underlying the asset, and to assess the value of the related investment held by the pension fund.

Sufficient assurance was gained from this work, and we have no matters to report.

Significant Risk

Areas of Audit Focus

What is the risk/area of focus?	What did we do?
<u>Valuation of non-quoted pooled investments (level 2)</u> 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 2022, 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.	We have: ► Reconciled the valuation of the non-quoted assets provided by the custodian and fund manager ► Verified the fund manager unit valuation to recent unit sales using externally available market information ► Reviewed the latest available audited accounts for the relevant fund and ensured there were no matters arising that highlight weaknesses in the fund's valuation ► Performed an analytical review of the pooled funds movement in year against the specific market movements the fund is invested in. Conclusion: We have completed our testing and have not noted any issues with the judgements used in the valuation of level 2 investments.

What is the risk/area of focus?	What did we do?
<u>Valuation of directly held property</u> Directly held property is 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.	We have: • Considered the competence, capability and objectivity of the Council's valuers; • Sample tested key inputs used by the valuer when producing valuations; • Challenged the assumptions used by the Pension Fund's property valuers by reference to external evidence. Conclusion: We have completed our work in this area and have no matters to bring to your attention.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE COUNTY COUNCIL

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2022 and the amount and disposition of the fund's assets and liabilities as at 31 March 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Corporate Operations' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the Fund's financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Corporate Operations with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Director of Corporate Operations is responsible for the other information contained within the Statement of Accounts 2021/22.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);

Draft audit report

Our opinion on the financial statements

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

Responsibility of the Director of Corporate Operations

As explained more fully in the Statement of the Director of Corporate Operations' Responsibilities set out on pages [...], the Director of Corporate Operations is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Operations is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Director of Corporate Operations.

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

We understood how Hampshire Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, and those charged with governance and whether they are aware of instances of non-compliance, and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, We corroborated this through our reading of the Pension Panel and Board minutes.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, and review of minutes.

Draft audit report

Our opinion on the financial statements

We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.

The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of Hampshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Hampshire County Council, its members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of audit differences

We challenged management on whether the Fund should amend notes 16 (Funding arrangements) and 17 (Actuarial present value of promised retirement benefits), using updated information from the 31 March 2022 triennial valuation, which had become available since the financial statements were issued in draft. As a result, management agreed to update these notes in the final version of the accounts.

There are no other unadjusted or adjusted audit differences which require your attention.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 with the audited pension fund financial statements. This will be done upon completion of the audit of the full annual statement of accounts of Hampshire County Council for the year ended 31 March 2022.

In addition, we also perform procedures to ensure the consistency of the pension fund accounts with the version presented in the Pension Fund's Annual Report. This will be done upon receipt of the final versions of the accounts.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (as amended) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014 (as amended). We have had no reason to exercise these duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund’s financial reporting process. We have no matters to report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

Our responsibilities

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.
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.

Findings

We have not identified any significant deficiencies in internal control.

07 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that are due to us in relation to the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Planned fee 2021/22	Note Ref	Final Proposed Fee 2020/21
	£		£
Scale Fee	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	39,699	1	39,699
Scale fee variation - new auditing standard	603	2	603
Scale fee variation – use of EY specialist	TBC	3	4,119
Total audit	TBC		68,863

Note:

1) In our 2019/20 audit we set out the basis for a requested rebasing of the scale fees due to changes in regulatory requirements. These are ongoing impacts, therefore, we have continued to include this request based on the same level of inputs.
2) From 2020/21, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs, predominantly ISA540. We have continued to include the impact at the lower end of the PSAA's communicated range, submitted in our 2020/21 fee variation proposal.
3) Fees in 20/21 relate to Property expert required to review the work performed by the Pension Fund Property Expert. As noted in section 2 we required the input of our experts to conclude on the valuation of L3 investments in 2021/22 and will consider the fee implications of this at the end of the audit .

All fees exclude VAT.

Other communications

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

EY UK 2022 Transparency Report | EY UK

08 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report May 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report May 2022
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report September 2022 and this audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report September 2022 and this audit results report No conditions or events were identified, either individually or together to raise any doubt about HPF's ability to continue for the 12 months from the date of our report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report September 2022 and this audit results report
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Attending Audit Committee – 27 September 2023
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Formal enquiry letter sent and response received from Chair of Audit Committee. Audit results report September 2022 and this audit results report

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit results report September 2022 and this audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit planning report May 2022 Audit results report September 2022 and this audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	• Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report September 2022 and this audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report September 2022 and this audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report September 2022 and this audit results report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report September 2022 and this audit results report
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Planning Report May 2022 Audit results report September 2022 and this audit results report

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Appendix B

Management representation letter

Hampshire Pension Fund

Management Representation Letter

xx September 2023

Helen Thompson
Partner
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Hampshire Pension Fund ("the Fund") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK) , which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and for keeping records in respect of contributions received in respect of active members of the Fund.

2. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.

Management representation letter

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements and the Summary of Contributions. We believe the financial statements referred to above give a true and fair view of the financial transactions and the financial position of the Fund in accordance with applicable law the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have not made any reports to the Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

5. There have been no other communications with the Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.

6. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.

Management representation letter

7. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

   - Involving financial improprieties
   - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
   - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund's business, its ability to continue in business, or to avoid material penalties
   - Involving management, or employees who have significant roles in internal control, or others
   - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions] are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: *[list date]*.

Management representation letter

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5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of management of the Fund.

7. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

8. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

9. No transactions have been made which are not in the interests of the Fund members or the Fund during the year or subsequently.

10. From the date of our last management representation letter (16 December 2021 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Management representation letter

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and Annual Governance Statement within the Statement of Accounts.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Advisory Reports

1. We have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and schedule of contributions/payment schedule.

H. Independence

1. As members of management of the Fund, we are not aware of any matters which would render Ernst & Young LLP ineligible to act as auditor to the Fund.

I. Derivative Financial Instruments and Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that the Fund has made no direct investment in derivative financial instruments.

2. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS (Management and Investment of Funds) Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt] as at 31 March 2022 and dated 31 March 2023 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Estimates

1. We confirm that the significant judgments made in making the Property, IAS 26 Disclosure and alternative investments valuations estimates ("the accounting estimates") have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

Management representation letter

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.

3. We confirm that the significant assumptions used in making the *accounting estimates* appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22

5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the property portfolio and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Going Concern

1. Based on our assessment of going concern, the details of which have been shared with you, we confirm that we are not aware of any material uncertainties related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. We do not intend to wind up the Fund. We are satisfied that the use of the going concern basis of accounting is appropriate in the preparation and presentation of the financial statements.

N. Climate-Related Matters

1. Whilst recognising that the Climate Change Governance and Reporting Regulations do not cover the Local Government Pension Scheme, we confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered as well as the impact resulting from the commitments made by the Fund, in the financial statements.

Management representation letter

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of United Kingdom Generally Accepted Accounting Practice aligned with the statements we have made in the other information or other public communications made by us.

Yours faithfully,

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Chief Financial Officer

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Chair

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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ED None

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	27 September 2023
Title:	Statement of Accounts 2021/22
Report From:	Rob Carr, Deputy Chief Executive and Director of Corporate Operations

Contact name: Rob Sarfas

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

Purpose of this Report

1. The purpose of this report is to seek approval for the Statement of Accounts for Hampshire County Council and the Hampshire Pension Fund for the period ending 31 March 2022.

Recommendation(s)

2. That the updated Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund be approved (Appendix 2).

3. That delegated authority be given to the Deputy Chief Executive and Director of Corporate Operations to approve minor changes to the accounts agreed between the County Council and Ernst and Young (EY) prior to the issue of the final audit opinion and publication of the audited Statement of Accounts.

4. That the Audit Committee notes the Letters of Representations will be signed by the Chairman of the Audit Committee and Chief Financial Officer (the Deputy Chief Executive and Director of Corporate Operations) as required by the external auditor.

5. That the Audit Committee approves the decision not to amend the unadjusted differences set out in paragraph 26 on the basis of materiality.

Executive Summary

6. This report deals with the conclusion of the audit of the **2021/22 Statement of Accounts** (i.e. Balance Sheet dated 31 March 2022). An update on the 2022/23 accounts and audit process is included elsewhere on the agenda.

7. The Accounts and Audit Regulations (2015) require local authorities to consider and approve their accounts (either by way of a committee or by the members meeting as a whole) following the conclusion of the period of public inspection. Within the County Council's constitution, this responsibility is delegated to the Audit Committee.

8. Two national technical accounting issues have delayed the conclusion of the audit of the 2021/22 accounts. The Audit Committee has received the following updates and taken the following decisions to date:
   - **May 2022**: received the audit planning report from EY noting the potential impact of the emerging national issue on accounting for infrastructure assets;
   - **September 2022**: approved the 2021/22 accounts following the period of public inspection, subject to a further report confirming the resolution of the national issue relating to the accounting for infrastructure assets;
   - **December 2022**: re-approved the 2021/22 accounts to reflect the amendments required by the new statutory instrument and temporary changes to the CIPFA Code to address the technical accounting issue relating to infrastructure assets;
   - **May 2023**: received position statements from the audit partner from EY and the Deputy Chief Executive and Director of Corporate Operations on progress with the 2021/22 audit, identifying a new national issue to do with the timing of LGPS triennial pension valuations and the associated technical accounting required under IAS 19 *Employee Benefits*.

9. Following further work on IAS 19 adjustments by officers and EY, the Deputy Chief Executive and Director of Corporate Operations wrote to members of the Audit Committee on 14 August 2023 to confirm that this element of the audit had been concluded with no major issues identified, but with the requirement to make a number of changes to the pension figures within the accounts to reflect the updated information available from the recent triennial revaluation results.

10. In concluding testing of the 2021/22 accounts, a number of other amendments have been agreed between officers and EY and the final version of the accounts is attached at Appendix 2. Further details on the adjustments relating to IAS 19 and other changes to draw to the attention of the Audit Committee are included later in this report.

11. Given the delays in completing the audit, the County Council has also provided updated financial planning and cash flow forecasts to enable EY to complete the going concern assessment for the period 12 months beyond the conclusion of the audit.

12. The updated accounts are now being presented to the Audit Committee for approval. An update from EY with their audit opinion is also due to be presented to the committee elsewhere on the agenda.

Contextual information

13. The County Council is required by the Accounts and Audit Regulations (2015) to produce an annual Statement of Accounts. For the County Council, the responsibility for the approval of the Statement of Accounts is delegated to the Audit Committee.

14. The accounts must be audited in accordance with the Local Audit and Accountability Act (2014). The timely completion of local authority audits has been impacted over recent years due to the impact of Covid-19 and resourcing issues within the local audit sector. Despite extended deadlines, the national picture is that the audits of a significant majority of local authority accounts for 2021/22 were not completed by the 30 September 2022 deadline, with only 27% of 21/22 audits completed by July 2023.

15. The conclusion of the 2021/22 audit of the County Council's accounts has been delayed primarily due to two technical accounting issues that have arisen nationally and are not specific to the County Council's accounts:
    - The technical accounting for infrastructure assets resulting in a new statutory instrument from DLUHC and a temporary change to the CIPFA Code;
    - The impact of the latest triennial LGPS pension valuations on IAS 19 pension assets and liabilities in the accounts.

16. The attached Statement of Accounts has been drawn up in the form prescribed by the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In addition, the Accounts and Audit Regulations 2015 contain certain requirements for disclosure in the Statement of Accounts.

17. An explanation of each section of the accounts is included in Appendix 1.

Updates to the accounts

18. There are three noteworthy changes to the accounts since they were approved by the Audit Committee in December 2022.

IAS 19 pension assets and liabilities

19. IAS 19 *Employee Benefits* is the accounting standard used to estimate the cost to an organisation of benefits earned by employees in return for their service in current and prior periods. The application of IAS 19 in local authority accounts is set out in the CIPFA Code and includes the accounting for pension assets and liabilities. Assets and liabilities are reflected on the Balance Sheet and in year amounts are charged to the Comprehensive Income and Expenditure Statement (CIES).

20. It is worth noting that although the CIPFA Code requires the accounting for pension assets and liabilities under IAS 19, statutory provisions mean that the County Council cannot charge the amounts shown in the CIES to the taxpayer. Instead, the revenue budget and outturn position reflect the employer contributions paid to the Pension Fund. The IAS 19 adjustments made to the accounts are therefore purely technical in nature and have no impact on the County Council's revenue budget or useable reserves.

Revenue budget and useable reserves £m	**Table 1 – changes to the 21/22 accounts to reflect updated IAS 19 pension figures**	**CIES £m**	**Balance Sheet assets and liabilities £m**	**Balance Sheet unusable reserves £m**	**MiRS (unusable reserves) £m**
	Reduction in current service cost under IAS 19	(4.96)	4.96	(4.96)	4.96
	Interest cost charge	0.05	(0.05)		
	Gain on assets	(0.05)	0.05		
	Increase in pension asset		64.89	(64.89)	
	Reduction in pension liability		169.30	(169.30)	
0.00	Employer contributions				
0.00	**Total**	**(4.96)**	**239.15**	**(239.15)**	**4.96**

21. The changes to the accounts to reflect the updated IAS 19 report provided by the actuary are shown in Table 1 (above). The most significant changes relate to the pension assets and liabilities recorded on the Balance Sheet as a result of changes in actuarial assumptions.

22. As noted above, although the adjustments to the accounts are large numbers, they do not impact the revenue outturn position for 2021/22 nor the useable reserves at the balance sheet date of 31 March 2022. This is because it is the employer's pension contributions that are charged to the revenue budget. The Hampshire LGPS Pension Fund is a defined benefit scheme backed by investment assets. Employer contributions are calculated based upon an actuarial assessment of the Pension Fund, as carried out every three years. This reflects complex actuarial assumptions and calculations, including the assessment of the Fund's funding and investment strategies and the probability of funding success. This is different from the accounting requirements under IAS 19.

Property, Plant and Equipment assets – historic academy conversions

23. During the course of the 2021/22 audit it has been identified that a restatement of the opening balance for Property, Plant and Equipment (PPE) assets in 2020/21 is required. This relates to the removal of assets with £nil Net Book Value (NBV) to remove the Gross Book Value and corresponding offsetting Accumulated Depreciation figures from the disclosure note relating to assets transferred to academy schools upon conversion to academy status. The Gross Book Value and offsetting Accumulated Depreciation figure were both overstated by £78.497m relating to a period prior to 2017/18. The adjustment has no impact on the NBV (the value on the Balance Sheet) of the assets or any other sections of the accounts.

Other updates

24. The Officer remuneration banding note for 2021/22 has been updated to ensure that all officers are reflected in the correct bands. This change was required due to including the impact of the Salary Sacrifice Shared Cost Additional Voluntary Contributions (SSCAVC) into the banding note, which had not been included in earlier versions of the accounts. This resulted in changes to the banding recorded for some officers, as well as bringing an additional 12 people into the banding note.

25. Other updates to the accounts are primarily due to the later completion of the audit (for example to extend the going concern/financial sustainability period to March 2025) or of a trivial nature (such as minor updates to figures).

Unadjusted differences

26. The audit results report issued by EY (page 23 of the separate agenda item) identifies a number of unadjusted audit differences and requests that these are either corrected or that the rationale for not correcting these adjustments is considered and approved by the Audit Committee and provided within the Letter of Representation.

27. The Chief Financial Officer does not recommend adjusting these amounts due to materiality. The CIPFA Code only requires local authority financial statements to disclose information that is material. Information is considered to be material *"if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users of general purpose financial statements make on the basis of those financial statements."* This includes consideration of whether the information is material to the 'true and fair' view of the financial position, financial performance, cash flows, and the understanding of users.

28. EY require the Chairman of the Audit Committee and the Chief Financial Officer (the Deputy Chief Executive and Director of Corporate Operations) to confirm the rationale for not making these adjustments within the Letter of Representation.

Hampshire Pension Fund

29. The Statement of Accounts also includes the accounts of the Hampshire Pension Fund. This is because the County Council is the Administering Authority and reporting entity for the Pension Fund, which is not a separate legal entity.

30. There are no unadjusted or adjusted audit differences to highlight relating to the Pension Fund accounts. Notes 16 and 17 in the accounts have been updated to reflect the updated information relating to the triennial valuation of the Pension Fund that was completed on 31 March 2023 and related to the valuation of the Pension Fund at 31 March 2022, the Balance Sheet date for the 2021/22 accounts.

Annual Governance Statement

31. In accordance with regulations, the Annual Governance Statement (AGS) must accompany the published Statement of Accounts. The AGS was approved by the Audit Committee in September 2022.

Period of Public Inspection of the Accounts

32. In accordance with legislation, the County Council published a notice of public rights in August 2022. No requests or questions were received during the period required by the regulations.

Letters of Representation

33. As part of the production and audit of the final accounts, the external auditors also require the Deputy Chief Executive and Director of Corporate Operations (the Chief Financial Officer) and Chairman of Audit Committee to provide Letters of Representations for the County Council and Pension Fund. The draft text of these letters is included within the audit results report from EY.

Consultation and Equalities

34. The Statement of Accounts summarises the financial transactions incurred following the approved revenue budget and capital programme. Consultation on the budget is undertaken when the County Council considers savings to help balance the budget. All savings proposals put forward by the County Council have an Equality Impact Assessment published as part of the formal decision-making papers and for some proposals stage 2 consultations are undertaken before a final decision is made by the relevant Executive Member.

35. The Accounts and Audit (Amendment) Regulations 2022 require the County Council's Statement of Accounts to be approved and published by 30 September 2023, or where this is not possible to publish a notice explaining why. This report deals with this statutory requirement, which is a financial reporting matter, and therefore no consultation or Equality Impact Assessments are required.

Climate Change Impact Assessment

36. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts 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.

37. In managing its financial resources, climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. This report deals with the statutory requirement to approve and publish a Statement of Accounts, which is a financial reporting matter and there are therefore no further climate change impacts as part of this report.

Conclusions

38. The Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund have been prepared in accordance with legislative and regulatory requirements. The presentation and approval of the annual accounts is an important part of the overall governance framework for the County Council and Pension Fund and the Audit Committee is therefore requested to consider and approve the accounts.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
Agenda for Audit Committee on Thursday, 26th May, 2022, 2.00 pm | About the Council | Hampshire County Council (hants.gov.uk)	26/5/22
Agenda for Audit Committee on Wednesday, 28th September, 2022, 10.00 am | About the Council | Hampshire County Council (hants.gov.uk)	28/9/22
Agenda for Audit Committee on Thursday, 22nd December, 2022, 2.00 pm | About the Council | Hampshire County Council (hants.gov.uk)	22/12/22
Agenda for Audit Committee on Thursday, 25th May, 2023, 2.00 pm | About the Council | Hampshire County Council (hants.gov.uk)	25/5/23
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:**

There are no new proposals in this report requiring an assessment

Appendix 1

Statement of Accounts

1. The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. It aims to provide information so that members of the public, including electors and residents of Hampshire, Members of the County Council, partners, stakeholders and other interested parties can:

    - Understand the overall financial position of the County Council and the outturn position for 2021/22;

    - Have confidence that the public money with which the County Council has been entrusted has been used and accounted for in an appropriate manner; and

    - Be assured that the financial position of the County Council is sound and secure.

3. The unaudited accounts were reviewed and signed by the Chief Financial Officer as a true and fair view of the financial position as at 31 March 2022. The draft accounts were published on the County Council's website in line with requirements of the regulations and enabled the commencement of the period for the exercise of public rights on or before the first working day of August 2022.

4. Following the conclusion of the period for the exercise of public rights, the Accounts and Audit Regulations require the Authority to:

    - consider, either by way of a committee or by the members meeting as a whole, the statement of accounts
    - approve the statement of accounts by a resolution at that committee or meeting
    - ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given

Narrative report

5. The narrative report provides information about the key issues affecting the County Council and reports on the County Council's financial and non-financial performance, risks and future prospects.

6. The narrative report is designed to help readers understand the County Council and its operating environment and to assist in the understanding and interpretation of the Statement of Accounts.

7. It explains how the required accounting presentation relates to the financial performance of the County Council as set out in the end of year financial report, which was presented to Cabinet and County Council on 18 July and 20 July 2023 respectively.

Statement of Responsibilities for the Statement of Accounts

8. The statement records the responsibility:
   - of the local authority to appoint an officer with the responsibility for the proper administration of its financial affairs. Within the County Council, this is the Deputy Chief Executive and Director of Corporate Operations
   - of the Deputy Chief Executive and Director of Corporate Operations to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present a true and fair value of the authority
   - of the Chairman of the Audit Committee to confirm that the accounts have been considered and approved by the committee.

Movement in Reserves Statement

9. This statement sets out the movement in the year on the different reserves held by the County Council, analysed into ‘useable reserves’ (cash-backed reserves which can be applied to fund expenditure or reduce council tax) and ‘unusable reserves’ (not cash-backed which are mainly used for accounting adjustments).

Balance Sheet

10. This shows the value of the assets and liabilities recognised by the County Council. The net assets of the County Council are matched by reserves, either usable or unusable.

Cash flow statement

11. The cash flow statement is designed to demonstrate the changes that have taken place in the County Council’s cash position over the year and to highlight the causes of these changes.

Comprehensive Income and Expenditure Statement

12. This statement shows the accounting cost of providing services rather than the amount funded from taxation. The taxation position is shown in the Movement in Reserves Statement and the difference between them is summarised in the Expenditure and Funding Analysis (note 1) and then itemised in note 2.

13. The bottom line figure on the Comprehensive Income and Expenditure Statement is equal to the change in net worth on the Balance Sheet, although it is the Movement in Reserves Statement that shows the impact of the County Council's activities on its revenue budget and therefore the Council Tax payer.

Notes to the accounts

14. These comprehensive notes incorporate further information to support the reader of the accounts. The accounting policies are incorporated within the relevant disclosure notes, with the general policies included towards the end of the notes.

Hampshire Pension Fund

15. The Statement of Accounts also includes the accounts of the Hampshire Pension Fund. This is because the County Council is the Administering Authority and reporting entity for the Pension Fund, which is not a separate legal entity.

16. The accounts for the Pension Fund provide details of contributions and benefits payable during the year, management expenses, and returns on investments during the year as part of the Fund Account. This results in a change in net assets of the scheme, reflected in the Net Asset Statement at 31 March 2022. The Net Asset Statement predominantly comprises investment asset balances in addition to other assets and liabilities.

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Hampshire County Council

Hampshire County Council

Statement of Accounts

2021/22

Contents

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Narrative Report

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It therefore aims to provide information so that members of the public, including electors and residents of Hampshire, Council Members, partners, stakeholders and other interested parties can:

- Understand the overarching financial position of the County Council and the outturn position for 2021/22;
- Have confidence that the public money with which the County Council has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that financial management of the County Council is strong and focused on supporting the continued delivery of services in a challenging economic and demographic context.

The style and format of the accounts complies with CIPFA standards and is broadly similar to that of previous years. The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of such a large and diverse organisation as Hampshire County Council are, by their nature, both technical and complex.

This Narrative Report has been structured to help enable readers to understand the County Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts. The report provides information about Hampshire, including the key issues affecting the Authority and its accounts. It also provides a summary of the financial position at 31 March 2022 and is structured as set out below:

- Statement from the Leader of Hampshire County Council
- Introduction from the Chief Financial Officer
- An Introduction to Hampshire
- The County Council's Non-Financial Performance
- Financial Performance of the County Council 2021/22
- Corporate Risks
- Summary Position
- Where you can get Further Information

This is followed by an explanation of the Financial Statements, including information on changes during 2021/22.

Statement from the Leader of Hampshire County Council

"As Leader of the County Council, I am delighted to be able to present to you the Statement of Accounts for 2021/22. The County Council has always had a strong track record of financial management and continued strong leadership and stewardship of the County Council's finances has put us in the best possible position in which we find ourselves today."

"The Coronavirus pandemic continued to present major challenges for Council services over the 2021/22 year as we worked to secure Hampshire's recovery from the pandemic. The Council has played a crucial role supporting the health and care sector in managing the continued risk of Covid-19 outbreaks and alleviating pressure on acute care settings through supporting hospital discharge routes. Our staff have managed surging demand across all services as the county has transitioned out of lockdown, from Social Care to our valued recreational and cultural services."

"The financial impact of the pandemic has been significant and will continue to be felt in the years to come. The Council set aside significant local resources to supplement the financial support provided by the Government and NHS England which has allowed us to meet the costs and losses resulting from the pandemic in 2021/22. However, the on-going financial impact remains difficult to predict. The County Council will continue with its careful financial management and robust financial monitoring with the aim of achieving on-going financial sustainability."

"Since the previous financial crisis in 2008, we have worked diligently to stretch every penny – delivering savings, reinvesting in new, more efficient ways of working, making prudent use of our reserves, and delivering more with less. Residents have told us they support this approach, and it has proven effective – and by April 2022 we will have removed savings totalling £560 million from the budget."

"This has only been possible due to our scale, capacity, financial resources and strong leadership. We have planned well ahead of time to implement the necessary savings to balance the budget and have used our reserves wisely to support the continuing significant change programme across the Authority and to ensure we have adequate time to implement changes properly and safely in order to minimise the impact on residents wherever possible."

"The financial information contained in this Narrative Report and the accounts themselves once again serve to highlight the continuing strength and success of this great County but the financial costs and consequences of the Coronavirus outbreak, and the impact this is likely to have on the County Council's savings programmes and income will present a unique challenge."

Councillor Rob Humby – Leader of Hampshire County Council

Introduction from the Chief Financial Officer

The Statement of Accounts for 2021/22 draws to a close another challenging but successful financial year for the County Council. Continued monitoring of the financial consequences of the pandemic and use of our locally funded Covid-19 response package has ensured strong financial performance of the business as usual services of the County Council. With significant underlying cost and demand pressures on services set to continue, coupled with the challenge of rising inflation, this strong financial outcome provides an essential foundation to achieving financial sustainability going forwards.

When reading this Narrative Report and the Statement of Accounts it should be noted that they were prepared to meet the County Council's statutory obligation to publish draft accounts ready for public inspection by 31 July 2022. However, whilst this requirement was fulfilled, the conclusion of the audit of these accounts has been delayed until September 2023 primarily due to two technical accounting issues that have arisen nationally and are not specific to the County Council's accounts.

This Narrative Report is designed to help readers better understand the Authority, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts themselves.

It contains background information about the County Council and outlines some of the key financial issues in areas such as revenue and capital spending, reserves and treasury management. As Chief Financial Officer to the County Council I also have responsibility for the Pension Fund and further information is provided to help explain the current position on the Fund and its investments.

Whilst the Statement of Accounts is backward looking it is also important to acknowledge the Coronavirus outbreak and the financial implications of the crisis on the County Council's own budgets and financial planning which continue to be profound.

The accounts themselves are very complex and technical in nature, but I hope you will take the time to look through them and in particular, read the Narrative Report which provides an excellent summary of what has happened during the financial year and outlines the financial standing of the County Council as at 31 March 2022.

If you would like more information on the accounts or have any questions on the content contact information is contained within this Narrative Report.

Rob Carr CPFA
Director of Corporate Operations

An Introduction to Hampshire

Hampshire is notable for housing the birthplaces of the Royal Navy, British Army and the Royal Air Force. It is bordered by Dorset to the west, Wiltshire to the north-west, Berkshire to the north, Surrey to the north-east, and West Sussex to the east. The southern boundary includes Portsmouth and Southampton and the coastline of the English Channel and the Solent, facing the Isle of Wight. Hampshire is in the top ten of the largest counties by land area (covering approximately 1,400 square miles).

Hampshire County Council is one of three local authorities in Hampshire (along with Portsmouth City Council and Southampton City Council) that provide 'upper tier' services, such as social care and education to residents of the county. In addition, there are 11 district councils and over 260 parish and town councils providing a range of services to businesses and residents.

The county also contains two national parks; the first covering the New Forest, and therefore governance of this area is carried out by a national park authority as well as New Forest District Council, the second is the national park for the South Downs which covers the chalk downlands from Winchester eastwards which embraces a large number of local council areas across three counties, Hampshire, West Sussex and East Sussex.

Key Facts about Hampshire

There are a number of factors which affect the County Council's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Authority's financial position in both the short and medium-term and further detail is available on the web describing the environment in which the County Council operates:

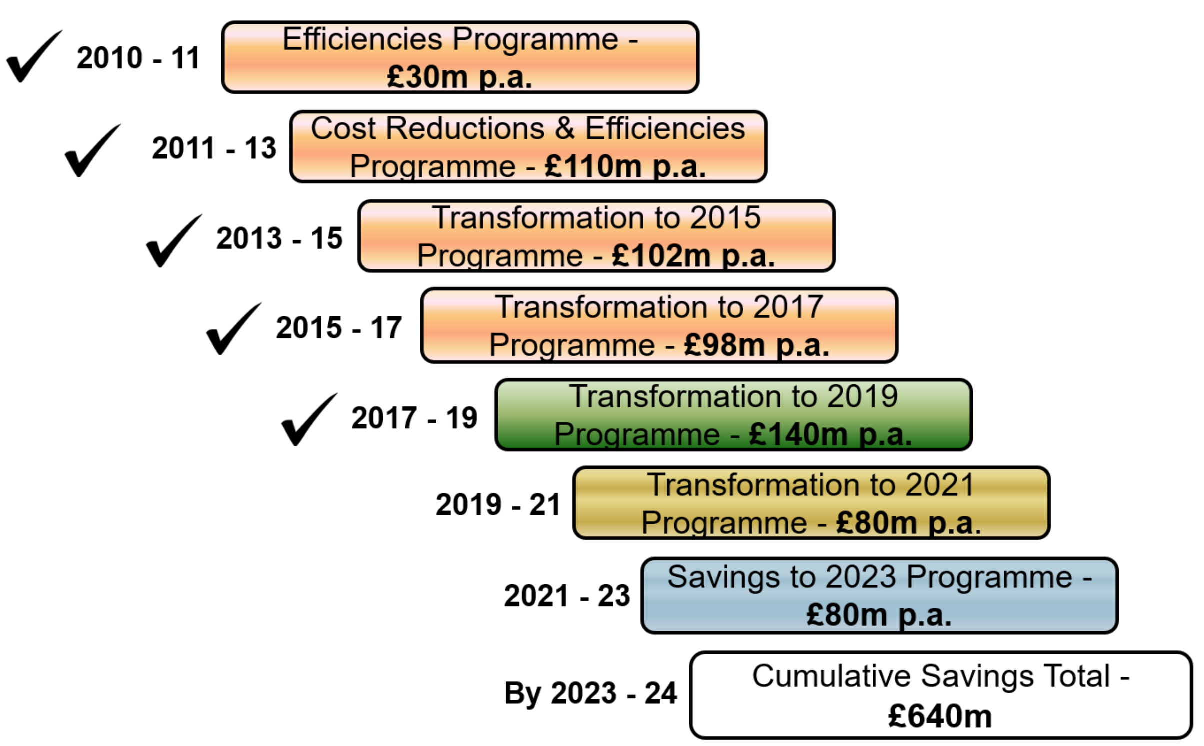
Hampshire-facts-figures-Economy-and-infrastructure.pdf (hants.gov.uk)

The County Council is responsible for 8,000km of road, 2,000+ road bridges, 150,000 street lights and 7,000km of footpaths.	The population of Hampshire is forecast to increase from 1,419,330 in 2021 to 1,502,980 in 2028, which is a 5.9% increase.	The Hampshire (county) economy is worth approximately £38.1 billion and contributes 14% to the South East's economy.
Hampshire (county) has 72,500 businesses and an employment rate of 80%, well above UK rate (75.8%).	545,000 households, of which 71% are owner-occupied (2011 Census).	138,000 pupils are taught in 474 maintained schools with an additional 38,000 taught in 52 academy schools
85% of Hampshire is defined as rural and over a third of the county's area is within National Parks or Areas of Outstanding Natural Beauty.	The number of homes in Hampshire is forecast to increase 7.6% (46,450 additional homes) by 2028, up from 615,200 homes in 2021.	Tourism generates almost £3 billion to the Hampshire economy. Hampshire is visted by 4.5 million staying visitors and 52 million day visitors each year.
Hampshire has more cars than any other county and two-thirds of commuters in Hampshire travel by car (2011 Census).	In 2021, 18.4% of Hampshire's population was aged 0-15, with 59.3% aged 16-64 and 22.3% aged 65+. By 2028 the percentage of Hampshire's population aged 65+ is forecast to have increased to 24.4%	The rural economy is worth an estimated £8.3 billion, or 17% of the overall Hampshire economy, with the agricultural industry worth £0.3 billion

Hampshire County Council is responsible for more than 80% of spend on council services in Hampshire and provides a wide range of services which make a difference to residents' lives on a daily basis, including education, transport, planning, social care, libraries, waste management and trading standards.

As the County Council continues with the delivery of its latest savings programme for implementation from April 2023 (SP2023) – alongside the remaining elements of its Transformation Programmes to 2019 (Tt2019) and 2021 (Tt2021), the need for a robust, strategic narrative is crucial. Central Government has reduced the amount of funding it gives to the County Council and at the same time, demand for County Council services is increasing. As a result, the County Council's budget for 2021/22 included a further £80m of savings – bringing the Authority's cumulative spending reductions to over half a billion pounds (see Figure 1 overleaf). Even without the financial consequences of the Coronavirus pandemic, the medium-term financial forecast identifies on-going pressure of around £50m every year with strong indications this will increase further.

Figure 1. – Cost Reduction Exercises Including SP2023 Programme Requirement



Note: The cumulative figure is made up of inflation, demand and reduced grant

Our Strategic Plan

In this context, the County Council requires a strategic narrative that will support the Authority to make tough, but necessary, choices about future services. The 'Serving Hampshire - Strategic Plan 2021 – 2025' is intended to guide decision-making to ensure that Hampshire taxpayers' money is targeted where it is needed most, and where it can make the most impact. The Strategic Plan is informed, and underpinned, by various, more detailed departmental plans, including: The Children's and Young People's Plan, Adults' Health and Care Service's vision, the Public Health Strategy, the Climate Change Strategy, and the COVID-19 Recovery Plan. The Strategic Plan covers the period of 2021-2025, reflecting the term of office for the new administration.

Hampshire County Council is one of the country's leading local authorities, with many services rated as 'excellent' and the Authority's ambition is to continue to transform and shape services for the future, in line with the Authority's evolving financial strategy. This means doing things more efficiently and providing high quality, responsive services that meet the needs of our customers and improve the quality of life for the residents of Hampshire.

Our plan to achieve this focuses on four strategic aims, which bring together a number of priorities under the following themes, to form the overarching framework for our services:

- **Hampshire maintains strong and sustainable economic growth and prosperity** – The first strategic aim relates to Hampshire's future economic growth and prosperity. This is of strategic importance because Hampshire's economic success underpins a number of other positive outcomes for Hampshire's residents and communities.
- **People in Hampshire live safe, healthy and independent lives** – The second strategic aim is about supporting people to live safe, healthy and independent lives by focusing the County Council's resources where they are needed most.
- **Hampshire enjoys a rich and diverse environment** – The third strategic outcome provides a strong alignment to the County Council's key corporate programmes relating to climate change and place shaping – the review of the Strategic Plan for 2021-2025 now provides the opportunity to ensure these areas of work are overtly embedded in the County Council's strategic vision.
- **Hampshire enjoys strong, inclusive communities** – This strategic aim is about recognising the resources, skills and strengths that exist in local communities and that, when utilised, can help reduce the demand and dependency on County Council services.

Reductions in central funding to councils combined with rising demand for care services mean that our corporate strategy and medium-term financial plan focus on targeting resources at the most vulnerable people while becoming more efficient in the delivery of our services. The County 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.

As a result, the County Council has had to make some tough decisions and whilst service improvement remains at the heart of everything the County Council does, increasingly services will be targeted at those who most depend on them – particularly children at risk of abuse and neglect, and adults who cannot look after themselves.

Looking Beyond 2022

One of the statutory obligations of the Chief Financial Officer is to keep the financial position of Hampshire County Council under review and to ensure that budgets set are realistic and deliverable whilst also ensuring that reserves are adequate.

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 County Council's MTFS was updated and approved by the County Council in November 2021 (Agenda Item 44). The report set out the medium-term prospects for the County Council's finances to the end of 2023/24 in the context of an emerging 'new normal' in the wake of the Covid-19 pandemic and a long awaited three year spending review that provided some additional funding for 2022/23, but a flat cash position for the following two years despite continuing forecasts of increasing demand for services. The focus of the medium term financial strategy was a further savings requirement of £80m per annum from April 2023 (SP2023).

Despite the three year spending review, only a one year settlement for 2022/23 was announced in December 2021 and disappointingly this reduced the adult social care precept to only 1% per annum for the next 3 years. Whilst the settlement provided an additional £22.9m of general resources to the County Council next year, it is not enough to close the budget gap and much of this funding is already accounted for from 2023/24 onwards as part of the SP2023 proposals.

Since reporting the MTFS in November 2021, the demand for adult and children's social care is continuing to increase together with an increase in the cost of care provision especially for older adults. The rising rate of inflation is also adding pressure to an already challenging financial position. The County Council's budget report in February 2022 forecasts a cumulative deficit by 2025/26 of some £157m after we have delivered £80m of savings by 2023/24. This is nearly double the two year target we have been working to since 2019/20 and represents the most significant challenge yet to the County Council's financial sustainability. A revised MTFS will be presented to the Cabinet and County Council in the Summer.

The Capital Programme originally approved as part of budget setting for 2021/22 delivers schemes totalling £418m over the three years from 2021/22 to 2023/24. It planned to provide the following:

- £68m of investment in new and extended school buildings in Hampshire in the period 2021/22 to 2023/24 to ensure there is a school place for every child in Hampshire

- £118m for structural maintenance and improvement of roads and bridges in Hampshire over the next three years

- £91 million for integrated transport schemes including £18m specifically focused on walking and cycling improvements

- £141m for major improvement of school and other County Council buildings over the next three years

- £33 million for decarbonisation schemes covering solar PV, single to double glazing window replacements, transition from oil to gas and the implementation of heating controls.

The Treasury Management Strategy over the period will continue to build on existing policies and practices, in particular protecting investment capital during this time of great uncertainty. With a balance on reserves of £883m at the end of 2021/22, the County Council can also conduct its Treasury Management activity to make sure sufficient cash is available to meet its operational obligations whilst also taking a longer-term view to investments where appropriate, enabling greater returns to be made in support of the revenue budget.

The County Council's financial forecast for 2022/23 has been reviewed alongside assumptions for 2023/24 and a prudent profile of cashflows to support the Chief

Financial Officer in assessing and confirming the County Council's financial sustainability to March 2025 in preparing the Statement of Accounts. The reserves balance coupled with the anticipated timing of cash flows and the liquidity profile of its investments means that that County Council can meet its operational obligations over the period, with the option to sell longer-term investments and make use of its borrowing headroom as a short-term solution to any unforeseen liquidity pressures, although this would have an impact on the longer-term financial sustainability of the County Council.

Ongoing uncertainty around the future of key funding streams for local government coupled with significant growth in demand for services, particularly with respect to adults' and children's social care, and uncertainty over the medium-term impact of Covid-19 does, however, mean that the County Council is dependent on external change to remain financially sustainable beyond this time.

Key Facts about Hampshire County Council

All of the factors in the section above help to shape the County Council's priorities and provide a challenging environment for the organisation to operate in, potentially increasing demand on services and impacting the funding available to meet these demands. Charged with directing the outcomes, priorities and policies of the County Council are the Councillors who are elected every four years.

The County Council's role is to act strategically and implement policy as determined by Cabinet. This means delivering services to the people of Hampshire (and sometimes beyond) in an open and cost-effective way. Hampshire County Council acts in the best interests of Hampshire and its residents.

The County Council has 78 Councillors (also known as Members) who decide the budgets and policies for the vital local services provided by Hampshire County Council and following local government elections in May 2021 the political composition changed as follows:

- 55 Conservative (previously 56)
- 17 Liberal Democrats (previously 19)
- 3 Labour Party (previously 2)
- 3 Independent (previously 1)

The turnout for the 2021 County Council elections was 38% of the electorate.

Under the County Council's Constitution, the Authority manages its affairs by way of a Leader with Cabinet model. The Leader is appointed by the County Council and they in turn appoint the Cabinet.

Supporting the work of the elected members is the Corporate Management Team (CMT). CMT work with, and for, the Leader and Cabinet to maximise the capacity and effectiveness of the organisation, in order to protect and build strong, sustainable public services that improve the quality of life for the people of Hampshire. The current composition of CMT is detailed below. Note 8b shows the further detail of people that have been in a strategic post during 2021/22:

- Chief Executive – Carolyn Williamson (FCPFA)
- Director of Adults' Health and Care – Graham Allen
- Director of HR, Organisational Development, Communications and Engagement – Jac Broughton
- Director of Corporate Operations – Rob Carr
- Director of Children's Services – Steve Crocker (OBE)
- Director of Economy, Transport and Environment – Stuart Jarvis
- Director of Culture, Communities and Business Services – Felicity Roe

The role of CMT is to lead the officers who work for the County Council, provide the strategic overview for the work of the Council, and manage the many and varied operational services for which the Council is responsible.

At 31 March 2022, the County Council employed 38,066 people, making the County Council one of the largest employers in the county. Many of these employees work part-time. In full-time equivalent (FTE) terms, the total number of employees was 25,739 at 31 March 2022 as shown below:

Full-time equivalent employees	**March 2021**	**March 2022**
Adults' Health and Care	2,952	2,922
Children's Services - Schools	15,826	15,768
Children's Services - Non Schools	2,599	2,696
Economy, Transport and Environment	700	701
Culture, Communities and Business Services	2,150	2,158
Corporate Services	1,584	1,494
Total	25,811	25,739

The data is presented as a snapshot on the 31 March each year and shows a largely consistent picture year on year. The minor variations reflect business as usual staff turnover.

The County Council's Non-Financial Performance

In Hampshire, we are proud of our strong record of delivering excellent services that provide value for money. Over the last few years, we have risen to the challenge of national spending control with an ambitious programme of savings and modernisation, while striving to protect frontline services and reduce the impact on those in most need as far as possible.

The County Council's Performance Management Framework (PMF) provides the local governance structure for performance management and reporting to Cabinet. The PMF specifies that Cabinet receives bi-annual reports on the County Council's performance against the strategic priorities set out in the Serving Hampshire plan. Performance information on children's and adults' safeguarding, major change programmes, and the County Council's financial strategy are reported separately to Cabinet.

In order to report progress against the Serving Hampshire's Residents - Strategic Plan 2021 to 2025 departments are required to monitor service performance against a core set of measures which contribute toward achievement of the plan's four strategic outcomes. For each measure, a risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information. Director's also provide a Performance Assessment to summarise each department's delivery of its priorities in relation to the Strategic Plan as well as the results of any recent external assessments.

Additionally, in support of the ongoing focus on external validation, the Hampshire Perspectives online residents' forum was launched in September 2020, with around 1,500 members of the public signed up to date. Forum members are invited to take part in short surveys, focus groups and consultations, helping to shape service delivery and aid evidence-based decision making.

At the end of 2021/22, the majority (81%) of measures were reported as low performance risk and the remainder (19%) as medium performance risk. No measures were identified as high risk. For all measures, 84% showed improved or maintained performance since the beginning of 2021/22. At the end of the first year of the four year plan, 43% of all performance targets had been met. The balance includes stretch targets reflecting the County Council's services' commitment to deliver ongoing service improvement over the 4-year period covered by the Serving Hampshire strategic plan.

Three measures showed poorer performance than in 2020/21 and failed to meet their target, in part due to impact of the pandemic. These include:

- Number of jobs created or safeguarded by businesses HCC has supported – 229 jobs were reported in 2021/22, compared with a target of 1,000
- Level of development contribution secured (total) – £40.3 million was secured in 2021/22, compared with a target of £46.2 million
- Condition of the principal highways network which should be considered for maintenance – 4% of highways were rated as requiring consideration for maintenance, compared with a target of 3%.

Additionally, the on-going impact of the pandemic meant that some measures, did not meet their targets for 2021/22, whilst demonstrating performance better than or similar to the previous year. This included uptake of school meals, participation in the National Child Measurement Programme and in person visits to libraries. Mitigation plans are already in place to support these areas.

Performance highlights for 2021/22 include:

- **Outcome one: Hampshire maintains strong and resilient economic growth and prosperity**
  - The County Council has seen 352 apprenticeships start within the Organisation in 2021/22, of which 205 were in the Council and 145 in schools. This represents an increase of 88 on 2020/21 and a near-return to pre-pandemic levels, bringing the total number of apprentices on the programme to 751 at the end of March 2022. The 87% retention rate of apprentices within the organisation is higher than the national average (59%) and has remained around this level for around five years, demonstrating the long-term return on investment. The rate of apprentices achieving their accreditations (66%) is also higher than the national average (58%).
  - In addition, the County Council manages an Apprenticeship Levy scheme that allows Hampshire businesses and public sector organisations to apply for funds to support their own apprenticeship schemes. £915,000 was paid from this scheme in 2021/22, funding 453 new apprenticeship starts at a value of £2.9 million within these organisations through the year.
  - The lengthening of the Eclipse Rapid Transit busway in Gosport was completed and opened in December 2021.
  - As part of measures to support businesses recover from the COVID pandemic, reducing economic impacts and encouraging Hampshire's economic growth, the County Council agreed to maintain contract payments for community transport operators at 100% from 1 April 2022 to 31 March 2023. This will assist operators in the recovery and operation of their services, as they continue to experience lower passenger numbers (currently 35% lower than before the COVID-19 pandemic) as user confidence returns.
- **Outcome two: People in Hampshire live safe, healthy, and independent lives**
  - Hampshire Children's Services and safeguarding partners (Hampshire Constabulary and pan-Hampshire Clinical Commissioning Groups) received positive feedback on continued strong performance in safeguarding children was received through a pilot Joint Targeted Area Inspection (JTAI) of 'Front Door' services in November 2021. The report highlighted that front door services deliver the support that Hampshire families need at the right time, as a result of the leadership

in Hampshire, the drive for continuous improvement, the focus on early help, and strong multi-agency working.

- As at the end of February 2022, 93.3% of Hampshire schools were judged to be ‘good’ or ‘outstanding’ by Ofsted.

- Just over 98% of parents were offered a reception year place for their child in one of their three preferred choice schools from September 2021, and just over 93% were allocated a place at their first choice of school, consistent with the performance in previous years.

- Food vouchers were provided during the school holidays to the children of vulnerable families affected by the pandemic. The COVID-19 Local Support Grant Scheme was organised through the ‘Connect4communities’ programme, which is led by Hampshire County Council, in collaboration with community partners. This scheme has now been further extended through 2022, to ensure that children in Hampshire eligible for free school meals, and other children deemed vulnerable by the Council, will have access to free healthy meals and enriching activities during the year’s Easter, Summer and Christmas school holidays.

- Performance against the national indicator N14.1s (percentage of children’s social care first assessment timeliness within 45 days) was consistently strong and above both national and south east averages.

- The first ‘Independence Hub’ opened in Alton in December 2021, offering post-16 education tailored specifically for young people with special education needs and disabilities (SEND). Three more Independence Hubs are planned to open over the coming two years, with an expectation that additional sites will also be identified.

- The *Call to Care* campaign took place, showcasing the careers available in social in Hampshire, as part of a strategic approach to addressing recruitment challenges in the sector.

- The release of CIPFA Public Library Stats for 2020/21 showed Hampshire Libraries to have the highest number of both physical and digital book issues and the highest number of visits of any county authority. A further 3.4 million physical books were issued in Hampshire libraries in 2021/22 whilst the number of eBooks issued in the same year (1.8 million) was more than double the number issued before the COVID-19 pandemic (869,081) in 2019/20.

- **Outcome three: People in Hampshire enjoy a rich and diverse environment**

  - Hampshire’s first recycling road materials site opened in Micheldever in June 2021, allowing the Council to reuse road materials dug up during road maintenance operations to reduce CO_2 emissions by 67,500kg, and save £320,000 per year.

- A segregated walking and cycleway route between Brighton Hill Roundabout and Sullivan Road in Basingstoke was opened, following a public consultation on the scheme in early 2021 which indicated strong support for the development. The route will link directly into the other cycle routes that will be provided as part of the Brighton Hill Roundabout improvement scheme.

- A £150,000 grant scheme, funded from the Department for Travel's Active Travel Fund, is allowing businesses to develop cycle facilities to support cycling as a means of commuting to work.

- Visitor Figures and Membership totals at Sir Harold Hillier Gardens exceeded pre-COVID figures. As at the end of 2021/22, bookings for educational and General Events showed a positive trajectory and conferences were returning to Jermyn's House. A new shelter has been installed at the pond and new play equipment has been installed at the Education Garden.

- All Hampshire Country Parks were awarded a Green Flag in 2021. Additionally, Royal Victoria Country Park and Staunton Country Park were awarded the Green Heritage Award in October 2021.

- The Barn at River Hamble Country Park opened to the public in March 2022. This new eco-friendly visitor centre and café has been built using climate friendly materials (many harvested from the same park) and features a solar panelled roof linked to Tesla batteries.

- **Outcome four: People in Hampshire enjoy being part of strong, inclusive, resilient communities**

  - The County Council continued to support Government programmes to resettle Afghan refugees following the withdrawal of UK troops from Afghanistan, including intensive support for refugees who have been temporarily accommodated in 'bridging hotels' before finding longer-term accommodation. At the end of 2021/22 the Council was supporting 3 bridging hotels in the area and had successfully supported the resettlement of 31 Afghan refugee families into longer-term Hampshire accommodation through this work.

  - Work to assist Ukrainian refugees arriving in Hampshire under the Government's Homes for Ukraine scheme began in early Spring 2022. Initial work involved conducting safeguarding and wellbeing checks via home visits, distributing Government-funded financial support, and ensuring timely information was shared with guests and sponsors - including helping to inform guests on how they could access healthcare and educational services.

  - Following the Balancing the Budget consultation in June 2021, the County Council has undertaken a number of public consultations to give residents and stakeholders an opportunity to have their say on Savings Programme 2023 (SP23) targets and how the Council could address its budget shortfall while continuing to deliver high quality services.

- Hampshire Hive' launched during Foster Care Fortnight in May 2021. This is a new support network for foster carers and the children they look after which aims to create an 'extended family' for fostering households.

- The Fostering Hampshire Children Winter Campaign has been shortlisted for Best Public Awareness Cause Campaign, to be awarded in Summer 2022. The campaign used an animated video, designed, and developed in-house by the County Council, to encourage Hampshire residents to provide a home to Hampshire children who are unable to live with their birth families.

- The County Council invested £515,000 to refurbish the Winchester Discovery Centre, with additional funding provided by Arts Council England and Hampshire Cultural Trust. The funding helped to improve library and gallery facilities, as well as updating the facilities at the site, as part of an agreement with Hampshire Cultural Trust to improve the financial sustainability of the building over the longer term. The refurbished site, named the 'Arc', formally re-opened in March 2022 with a visit from HRH The Prince of Wales.

- The *Bringing the library to you* campaign, developed by the County Council to promote the use of library services at home, successfully encouraged a sense of online community and connectedness and was awarded the CILIP Marketing Excellence Award in 2021.

The Getting Going Again Fund of £950,000 was approved by the Council, to support Hampshire residents who have been classed as Clinically Extremely Vulnerable (CEV) or Clinically Vulnerable (CV) to re-engage with their local communities and focus on the post COVID-19 future, by helping people to safely start accessing their local communities again and return to more normal ways of life.

A more extensive list of key performance achievements, including external recognition and awards is included in the Serving Hampshire - 2021/22 Performance Report presented to Cabinet on 19 July 2022.

The County Council's Financial Performance

Revenue Position

The current financial strategy that the County Council operates, works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the Budget Bridging Reserve (BBR), formerly known as the Grant Equalisation Reserve (GER).

This strategy has served the County Council, and more particularly, its services and communities well. It is an approach that has ensured Hampshire County Council has avoided the worst effects of funding reductions in recent years that have adversely affected other local authorities.

In line with the medium-term financial strategy, savings targets for 2021/22 were approved by the County Council approved in July 2018 and detailed savings proposals were developed through the Tt2021 Programme and approved by Executive Members, Cabinet and County Council in October and November 2019. Given this position, no new savings proposals were presented as part of the 2021/22 budget setting process and the Tt2021 Programme was to achieve savings of £80m which were incorporated into the revenue budget.

The anticipated delay in the delivery of some elements of programme has been factored into our medium term planning to ensure that enough one off funding exists both corporately and within departments to meet any potential gap over the period. Taking up to five years to safely deliver service changes rather than being driven to deliver within the two year financial target requires the careful use of reserves as part of our overall financial strategy and further emphasises the value of our Reserves Strategy.

Most of the County Council's income comes from the Dedicated Schools Grant (DSG), general government grants, council tax and business rates. Fees and charges contribute to the cost of some services and interest is earned on day-to-day balances. Government capital grants and external contributions applied to finance capital expenditure have been excluded from the following table. The proportion of the Council's income obtained from these sources is as follows:

	2020/21	**2021/22**
	%	**%**
Council tax	28	28
Business rates	2	2
General Government grants	6	6
Fees, charges and interest	18	19
Specific Government grants	46	45
Total	**100**	**100**

Revenue expenses relate to spending on the day to day operations of the County Council. Due to the nature of the services that the County Council provides, much of the cost of services relate to staffing costs. Other running expenses relate to contracts with external providers for major services such as waste disposal, highways maintenance and social care services, together with other non-staffing costs such as transport, premises costs, supplies and services and the cost of borrowing money for financing capital expenditure. The breakdown of these costs is shown in the following table:

	2020/21	2021/22
	%	%
Staff costs	47	48
Running expenses	44	44
Capital financing	9	8
Total	**100**	**100**

The County Council is responsible for providing a wide range of services, by far the biggest is education and there are over 500 schools within Hampshire, some of which have converted to Academy status and are not shown in the County Council's accounts. In 2021/22 the split of expenditure across the key service areas was as follows:

	2020/21	2021/22
	%	%
Adults', Health and Care	26	27
Schools	44	44
Children's Services Non-schools	10	12
Economy, Transport and Environment	9	8
Culture, Community and Business Services	4	4
Corporate Services	5	4
Other Services	2	1
Total	**100**	**100**

The budget for 2021/22 was approved by the County Council on 25 February 2021 and the council tax requirement (which is the net budget met by council tax) for 2021/22 was set at £707m.

More information about the budget originally set for 2021/22 is included in the Revenue Budget and Precept 2021/22 and Capital Programme 2021/22 - 2023/24 Report and in the 2021/22 Budget Book.

The Medium Term Financial Strategy (MTFS) Update reported to Cabinet and County Council in July 2020 sought to assess the medium term impact of Covid-19 on the financial sustainability of the County Council. It explained that the Council would treat the medium-term impact of Covid-19 as a one-off financial impact to be addressed through a financial response package of Council resources and further government support. This allowed the Council to continue to implement its standard financial strategy for business as usual budget management, ensuring the Council could remain financially sustainable in the medium term. During 2021/22 the Council has continued to face significant and wide-ranging financial pressures due to the pandemic, which have persisted beyond the initial period of lockdown restrictions and social distancing in many cases and total £113.2m for the year.

During the year, additional funding was made available to help meet the visible costs of Covid by the Government and NHS England. This included specific government grants totalling almost £45m, of which £13.9m has been carried forward for use in 2022/23. Specific Covid grants of £56m were utilised in 2021/22, including funding carried forward from 2020/21, primarily to provide outbreak management services and to support social providers in implementing infection control measures. £32m unringfenced Covid tranche funding was available to contribute towards meeting general Covid pressures and income losses, leaving a deficit of £25.0m as outlined below to be funded by the County Council, for which contingency funding was earmarked.

	Year End
	£'000
Response costs, service pressures and income losses	92,654
Delayed savings	21,231
Total Costs and Losses	**113,885**
Non-specific grants brought forward	(8,203)
Specific grants brought forward	(25,545)
Covid-19 Tranche 5 Grant	(23,979)
Infection Control and Contain Outbreak Management Grants	(34,373)
Other Specific Grant Funding	(11,456)
Local funding from Covid-19 Response Package	(24,966)
Total Funding	**(128,522)**
Specific Covid-19 grants carried forward	**(14,637)**

Cabinet and County Council have continued to receive regular updates throughout the past year in respect of the financial impact of Covid-19 on Council services. Current forecasts indicate that Departments are expecting to face a further £46.7m pressures linked to Covid-19, including as a result of delayed savings, across 2022/23 and 2023/24. The Council has set aside corporate funding to meet these pressures in full to minimise the impacts on service delivery.

The County Council has continued to demonstrate strong financial stewardship over this extremely challenging period. At the end of 2021/22, departmental net expenditure was £30.9m lower than budgeted, against an overall gross budget of approaching £2.1bn, a variance of 1.5%. £14.8m of the budget saving relates to an additional contribution which will be made by the county Clinical Commissioning Groups towards the costs of reablement services in 2021/22, which have supported timely discharges from hospitals. The remaining underspend largely reflects the early achievement of SP2023 savings in many service areas (£10.6m) and savings on staffing costs due to the challenges of recruiting to vacant posts, particularly customer facing roles, following the pandemic. Additionally, many of the Council's income generating services such as Hampshire Outdoor Centres and Registration Services have seen demand fully recover following the lifting of social restrictions, generating income in excess of budgeted levels.

Further non-departmental savings of £13.8m were achieved, largely from unused contingency set aside for inflation increases and growth in waste volumes that were not required, and from savings in the capital financing budget relating to slippage in the capital programme and achievement of strong returns on the Council's cash investments. These one-off savings will be transferred to reserve pending decisions by Cabinet in July 2022 for their use.

Schools continue to face increasing financial pressure, in particular relating to high needs for children with special educational needs and or disabilities (SEND), both at an individual school level and within the overall schools' budget. These pressures are outside the County Council's core budgets, but the County Council retains an active role and interest as the local education authority. In 2021/22 the overall position has been balanced through the use of the DSG Reserve; albeit that this is in deficit. Consequently, the resulting cumulative DSG deficit of over £60.0m (up from £35.5m last year) will need to be funded from future years DSG funding. A DSG Deficit Recovery Plan has been produced, at the request of the DfE, and the local authority continues to develop this and implement strategies to reduce the pressure on the High Needs Block.

The overall position is shown in the table below and further information is included in the End of Year Financial Report 21/22 considered by the County Council's Cabinet on 19 July 2022.

	Final Budget 2021/22 £'000	Outturn 2021/22 £,000	Variance £,000
Adults' Health and Care	521,066	498,273	(22,793)
Children's Services – Schools	952,863	952,863	0
Children's Services – Non Schools	260,095	259,043	(1,052)
Corporate Services	55,899	51,611	(4,288)
Culture, Community and Business Services	49,640	45,570	(4,070)
Economy, Transport and Environment	117,257	116,981	(276)
Departmental Expenditure	**1,956,820**	**1,924,341**	**(32,479)**
Specific Grants	(1,133,211)	(1,133,211)	0
Other Costs Not Allocated to Services	13,201	2,997	(10,204)
Total Cost of Services	**836,810**	**794,127**	**(42,683)**
Capital Financing Costs	35,348	28,123	(7,225)
Other non-specific grants	(92,558)	(92,053)	505
Revenue contributions to capital	13,032	7,806	(5,226)
Business Units (Net Trading Position)	(604)	(2,262)	(1,658)
Net Revenue Budget	**792,028**	**735,741**	**(56,287)**
Contributions to / (from) Reserves and Balances:			
Earmarked Reserves	18,708	70,640	51,932
Trading Unit Reserves	555	2,238	1,683
General Fund Balance	900	900	0
Budget Requirement	**812,191**	**809,519**	**(2,672)**
Funded By:			
Business Rates and Grant	(122,130)	(122,110)	20
Collection Fund Deficits / (Surpluses)	18,899	18,899	0
Council Tax Requirement	**708,960**	**706,308**	**(2,652)**

Capital

The three year Capital Programme for 2021/22 to 2023/24 was approved by the County Council alongside the revenue budget and precept on 25 February 2021. More information about the budget originally set for 2021/22 is included in the Revenue Budget and Precept 2021/22 and Capital Programme 2021/22 - 2023/24 Report and in the 2021/22 Budget Book.

In 2021/22 the County Council spent £241m on capital projects, £35m less than the revised budget and this spend is summarised below with the proposed method of financing:

	Actual £'000
Adult Services	23,869
Children's Services	45,506
Economy, Transport and Environment	111,019
Culture, Communities and Business Services	60,762
Total Capital Expenditure	**241,156**
Funded by:	
Prudential Borrowing:	
For Capital Schemes	45,186
Repayments of Specific Schemes	(13,677)
Capital Grants	131,078
Contributions from Developers and Outside Agencies	58,520
Capital Receipts	12,244
Contributions from Reserves	1,720
Revenue Contributions	11,319
Use of the Capital Reserve	(5,234)
Total Capital Financing	**241,156**

In addition to this spend, during 2021/22, the Enterprise M3 Local Enterprise (EM3 LEP) invested £13.3m in capital projects within the M3 corridor. This spend is matched by grants and included in the annual accounts, as the Council is the Accountable Body for the EM3 LEP.

Steady progress is being made given the significant size of the overall capital programme, although the proportion of the 2021/22 programme committed in the year at £179.4m, is lower than the level achieved in 2020/21 of £235.2m.

	2020/21 £m	2021/22 £m
Committed	235.2	179.4
Carried Forward	124.2	150.4
Total Programme	**359.4**	**329.8**
Percentage Committed	65%	54%

Further information is provided in the End of Year Financial Report 2021/22 considered by the County Council's Cabinet on 19 July 2022.

Treasury Management and Prudential Indicators

Treasury Management is concerned with managing an authority's long-term borrowing and lending activity and managing cash flows on a day to day basis to ensure that sufficient funding exists to pay staff and suppliers throughout the year.

The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function and in line with the Prudential Code for Capital Finance in Local Authorities, the County Council reports its actual performance against the Prudential Indicators that were set in its Treasury Management Strategy (TMS).

The TMS is reviewed annually and provides the framework within which authority is delegated to the Director of Corporate Operations to make decisions on the management of the County Council's debt and investment of surplus funds.

All treasury activity has complied with the County Council's TMS and Investment Strategy for 2021/22, and all relevant statute, guidance and accounting standards. In addition, the County Council has also complied with all of the prudential indicators set in its TMS.

The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was most recently updated and approved by full Council in February 2022.

At 31 March 2022, the County Council held £249.2m of loans, (a decrease of £8.6m on the previous year) as part of its strategy for funding previous years' capital programmes. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective.

The County Council has held invested funds representing income received in advance of expenditure plus balances and reserves held. During 2021/22 the County Council's investment balances have ranged between £570m and £813m due to timing differences between income and expenditure. Both the CIPFA Code and the government guidance require 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.

Further information is provided in the End of Year Financial Report 2021/22 considered by the County Council's Cabinet on 19 July 2022.

Reserves and Balances

The County Council maintains a number of useable reserves, as detailed in the Balance Sheet.

The level and use of local authority reserves has been a regular media topic over a number of years often fueled by comments from the Government that these reserves should be used to significantly lessen the impact of the measures to reduce the deficit that have seen a greater impact on local government than any other sector.

The County Council has continually explained that reserves are kept for many different purposes and that simply trying to bridge the requirement for long-term recurring savings through the use of reserves only seeks to use up those reserves very quickly (and mean that they are not available for any other purposes) and merely delays the point at which the recurring savings are required. The County Council's reserves strategy is now well rehearsed and continues to be one of the key factors that underpins our ability not only to provide funding for transformation of services, but also to give the time for the changes to be properly planned, developed and successfully implemented.

At the end of the 2021/22 financial year total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the DSG deficit, total £883.0m an increase of £128.1m on the previous year. Of this increase, £30.1m relates to departmental underspends, £30.8m relates to transfers to the Budget Bridging Reserve and £30.2m relates to capital grants received in advance of their planned use to fund capital schemes. The balance also includes reserves held on behalf of individual schools which increased by £17.2m in 2021/22. The balance includes contributions to Departmental cost of change reserves, reflecting the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery and to allow delivery of the more complex savings to be achieved safely over a longer time period.

The net impact of the changes in the revenue account during 2021/22 mean that the BBR will stand at just under £99m, which is in line with the financial strategy of supporting the revenue spend position as savings are developed and delivered on a two year cycle; or longer where appropriate.

The current strategy that the County Council operates works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years with deficits in the intervening years being met from the BBR. Building the provision within the BBR will support the revenue position in future years, as set out in the MTFS, in order to give the County Council the time and capacity to implement the next phase of transformation to take us through 2023/24 and beyond.

In view of the impact of the Covid-19 crisis on the County Council's financial position it was judged to be even more important that we continued to make contributions to reserves in order to meet any costs that were not covered by government support. A financial response package was developed by the Council that looked at what reserves and other funding could be applied to offset the impact of the pandemic. Over £70m local funding is expected to be required to meet pressures, slipped savings and income losses due to Covid-19. This demonstrates very clearly the value of our reserves in providing options and flexibility to address financial challenges, which are not available to other authorities.

It has been agreed that where possible, the County Council will continue to direct spare one-off funding into the BBR to maintain what is part of a successful strategy which has served it very well to date. Consequently, further additions were included as part of developing the budget for 2021/22, notably following the savings resulting from both the favourable 2019 Pension Fund revaluation (which saw the eradication of the deficit and the removal of the need for the past service payments that we were making and assumed would be needed in the future), and also the pre-payment of pension contributions to the Pension Fund.

Substantial budget deficits of £101.8m and £157.0m are forecast for 2024/25 and 2025/26 respectively, largely due to growth in service demand and price increases following the pandemic, particularly for Adult Social Care. The Council is currently developing its financial strategy to meet the forecast deficit of £157m by 2025/26, however it is crucial that the Council is able to set aside sufficient funding in the BBR to bridge the £101.8m gap in 2024/25 on an interim basis. This will provide the time to develop and implement plans to address the most significant financial challenge that the Council has faced to date.

The following table summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2020/21:

	Balance 31/03/2021 £'000	Balance 31/03/2022 £'000	% of Total %
Revenue Reserves:			
General Fund Balance	23,198	24,098	2.7
HCC Earmarked Revenue Reserves			
Fully Committed to Existing Spend Programmes	202,115	212,917	24.1
Departmental / Trading Reserves	149,490	186,117	21.1
Risk Reserves	45,839	49,934	5.7
Corporate Reserves	96,107	125,822	14.2
HCC Earmarked Revenue Reserves	493,552	574,790	65.1
Non HCC Earmarked Revenue Reserves	71,428	87,644	9.9
Total Revenue Reserves and Balances	**588,178**	**686,533**	**77.8**
Total Capital Reserves and Balances	**166,672**	**196,447**	**22.2**
Total Reserves and Balances	**754,850**	**882,980**	**100.0**

The biggest proportion of reserves are those that are fully committed to existing spending programmes, including funding required to meet commitments in the approved capital programme.

In addition, £196.4m is held within capital reserves and balances, although of this sum £22.0m relates to the EM3 LEP which is included in the annual accounts, as the County Council is the Accountable Body. These reserves hold capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

Corporate Reserves relate to those reserves which whilst set aside for a specific purpose could be used to limit the impact of savings in services, which is exactly what for example the BBR does on a short-term basis giving the County Council the time and capacity to properly and safely implement savings programmes. However, trying to prevent savings by using reserves is not sustainable in the medium-term as the County Council needs recurring savings in order to close the predicted deficits in the budget.

The County Council has no control over Non-HCC Earmarked Reserves, the majority of which belong to schools, but these must be reflected in the final accounts each year. They do not include the reserves of Academy Schools. The figures for Non-HCC Earmarked Reserves do not include the accumulated DSG deficit of £60.0m as this is required to be shown as an unusable reserve with the deficit being funded from future years' DSG income.

The General Fund Balance is not earmarked for any specific purpose, but represents a minimum level of balances recommended by the Chief Finance Officer to provide a buffer against any significant unexpected losses during the year.

The overall level of reserves currently exceeds £0.88bn and it is also important to consider the level of the available resources in the context of the scale and scope of the County Council's operations. It is a stark fact that when expressed in terms of the number of days that usable reserves would sustain the authority for, it would be around 16. This highlights once again that reserves offer no long-term solution to the financial challenges we face. Correctly used however, they do provide the time and capacity to properly plan, manage and implement change programmes as the County Council has demonstrated for many years now.

The County Council faces the biggest ever challenge to its overall financial sustainability which, on top of the longer lasting effects of the Covid-19 pandemic, will be impacted by government policy on fair funding, business rate retention, adults' and children's social care and waste and recycling. This increases the potential necessity to use reserves to alleviate the ongoing financial pressures in the coming years and we will continue to review all reserves regularly to ensure that there is sufficient financial capacity to cope with the challenges ahead.

Further information is provided in the Appendix 5 of the Revenue Budget and Precept 2022/23 Report which was approved by the County Council in February 2022, including in more detail the purpose for which the reserves are held and in particular why the majority of these reserves cannot be used for other reasons.

Hampshire Pension Fund

The Hampshire Pension Fund is part of the Local Government Pension Scheme and is administered by Hampshire County Council on behalf of the 350 other employers in the scheme. As at 31 March 2022, the net assets of the Fund were valued at £9.63bn. The Pension Fund's accounts are included as part of the County Council's accounts on page 122.

In line with the Local Government Pension Scheme (LGPS) Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the valuation as at 31 March 2022 is in progress. At the 2019 actuarial valuation, the Fund was assessed as 99% funded (81% at the March 2016 valuation). This corresponded to a deficit of £78 million (2016 valuation: £1,240 million) at that time. In accordance with the regulations the Actuary's triennial valuation is calculated on a different basis to the calculation of employers' individual pension fund liability for inclusion in their accounts under International Accounting Standard (IAS) 19.

County Council's Pension Fund Liability

The County Council's own net pension liability is included in the balance sheet in accordance with accounting standards. This includes an estimate of the impact of the anticipated changes to scheme regulations that will be made to remove age discrimination as a result of the McCloud and Sargeant legal cases.

Overall, the net liability has decreased from £1,842m at 31 March 2021 to £1,498m at 31 March 2022. This results from an increase in the value of assets exceeding the increase in the pension liability – the latter reflecting a higher discount rate than the previous year. The net gain is shown in the Comprehensive Income and Expenditure Statement and then transferred to the Pension Reserve and does not impact on the General Fund balance. Statutory arrangements for funding the net pension liability mean that the financial position of the Authority remains healthy as the deficit will be covered by increased contributions over the remaining life of employees (i.e. before payments fall due), as assessed by the scheme actuary. Further information can be obtained from Note 24 to the accounts.

Corporate Risks

Hampshire County Council has always recognised that we live in an uncertain world, where the people, environment and communities of Hampshire may be at risk. Based on the principles outlined in the International Standard on Risk Management, ISO 311000, the County Council has successfully embedded risk management into many of its business as usual practices to ensure that it can view, manage and respond to risk, both threats and opportunities, in a robust, systematic and documented way. Never before has this approach been tested in the way it has been since March 2020 in response to the global pandemic.

The County Council very quickly activated its Gold, Silver and Bronze emergency planning structure across the organisation, including through its new responsibilities for outbreak control. Close working with partners through the Local Resilience Forum and SCG have also been in place. Regular reports have been presented to Cabinet summarising the action taken by the County Council across all departments and through the work of the County Council's Health Protection Board under the leadership of the Director of Public Health and in close liaison with the Local Outbreak Engagement Board led by the Leader of the County Council. In addition, as the crisis has progressed, the financial implications have been captured and reported regularly to Members and to the Minister for Housing, Communities and Local Government (MHCLG).

Despite the significant impact of the pandemic, the County Council has continued to focus clearly on business as usual activity including the assessment of risks as part of their day to day activities and in particular for major projects under their control. This is overseen by the Risk Management Board.

The County Council has developed a performance framework for its business risk management and health and safety management systems. These are based on the Alarm National Risk Management Maturity Model. The County Council uses this performance framework to measure the performance of its management of risk, set robust targets for improvement, report on progress and demonstrate value for money. Self-assessment is supported by documentary evidence, audits and reviews and performance indicators. Assurance on our services is provided by Internal Audit and our External Auditors.

The Corporate Risk Register plays an integral role to support production of the Corporate Plan and is subject to annual review by the Audit Committee when it approves the final accounts.

The impact of the current economic climate on the County Council is taken into account when the County Council sets its budget in the February preceding the start of the financial year. The significant movements and events in the year are reported to Cabinet. Monitoring of spend against the budget takes place throughout the year and is reported to CMT regularly and to Cabinet on a periodic basis.

Summary Position

Against the backdrop of unprecedented national and global circumstances, the County Council's financial and non-financial performance in 2021/22 continues to be strong.

The revenue outturn, with savings against departmental budgets of £30.1m after substantial transformation costs have been met in year (largely due to the early delivery of savings), is testament to the strong financial focus that has been maintained throughout the year. This has allowed the County Council to set aside resources that can then be used to meet the costs of change, to cash flow the delivery of savings or to offset service pressures in future years.

In 2021/22 the ambitious capital programme has seen schemes costing £235m started from the approved capital programme for the year of £359m and capital payments of £241m incurred which can be financed within available resources.

All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2021/22, the County Council has complied with all of the prudential indicators set in its Treasury Management Strategy and excluding the unpredictable future impact of Covid-19, has sufficient reserves and balances to provide financial resilience for 2022/23 and future years.

In 2021/22, Hampshire County Council has faced and dealt successfully with significant change. Beyond 2021 the County Council faces the biggest ever challenge to its overall financial sustainability which, on top of the longer lasting effects of the Covid-19 pandemic, will be impacted by government policy on fair funding, business rate retention, adults' and children's social care and waste and recycling. However, there are well established and robust risk management processes in place and, together with robust financial management and reporting, Hampshire County Council is in a strong position as it moves into 2022/23. As tough as the forward agenda is, we also know that the County Council continues to be as well placed as any other local authority to deliver on the continuing financial challenges that apply in the sector.

Changes to the Accounts

In December 2021, the Department for Levelling-up, Housing and Communities (DLUHC) announced an intention for the following dates to apply for the 2021/22 accounts and audit process in England:

Publication of unaudited accounts by 31 July 2022

Publication of audited accounts by 30 November 2022

These changes were supported by an amendment to the Accounts and Audit Regulations that required the publication of audited accounts by 30th November 2022. However, as stated in the Narrative Report, the conclusion of the audit of the 2021/22 accounts has been delayed until September 2023 primarily due to two technical accounting issues that have arisen nationally and are not specific to the County Council's accounts.

The 2021/22 Code of Practice on Local Authority Accounting made changes to some accounting standards but none of them have had a material effect upon our accounts.

Explanation of the Statement of Accounts

The Financial Statements bring together all the financial activities of the County Council for the year and its financial position as at the 31 March 2022. They detail both revenue and capital elements for the General Fund and separately provide detail for the Pension Fund.

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the County Council is required to produce a set of accounts in order to inform stakeholders of the County Council that we have properly accounted for all the public money we have received and spent and that the financial standing of the County Council is on a secure basis.

The accounts for 2021/22 are set out on pages 32-165. They consist of:

- **Statement of Responsibilities for the Statement of Accounts –** Outlines the key responsibilities in respect of the accounts, together with statements from the Chief financial Officer and Chairman of the Audit Committee.
- **Movement in Reserves Statement** – Analyses the change in net worth between the general fund, other useable reserves and unusable reserves.
- **Balance Sheet** – This sets out assets and liabilities at 31 March 2022 compared with 31 March 2021.
- **Cash Flow Statement** – This summarises the movement in cash and cash equivalents during the course of the year.
- **Comprehensive Income and Expenditure Statement** – Shows the accounting cost in the year of providing services measured in accordance with international accounting standards rather than on the basis of the costs that are required to be financed from taxation.
- **Notes to the Accounts** – Which explain some of the key items and disclosures in the accounts.
- **Pension Fund Accounts** – These are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies.

Relationship between Accounting Statements

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the County Council, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves that mainly deal with technical accounting adjustments.

The Cash Flow statement reconciles to the balance on the Comprehensive Income and Expenditure account for the year and the movement in Balance Sheet liquid assets and liabilities.

The Total Comprehensive Income and Expenditure represents the change for the year in total net worth as shown on the Balance sheet.

Where you can get further information

You can get more information about the accounts from the Director of Corporate Operations, Hampshire County Council, The Castle, Winchester, SO23 8UB, Telephone: 0370 779 7883, e-mail: budget@hants.gov.uk.

1. The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Financial Officer
- Manage its affairs so as to use resources economically, efficiently and effectively and safeguard its assets
- Approve the Statement of Accounts.

2. The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for preparing the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain.

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice
- The Chief Financial Officer has also:
- Kept proper accounting records which are up to date
- Taken reasonable steps to prevent fraud and other irregularities.

3. The Chief Financial Officer's Statement

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council and Hampshire Pension Fund as at 31 March 2022 and the income and expenditure for the year ended 31 March 2022.

Rob Carr XX September 2023

Chief Financial Officer and Section 151 Officer

4. The Chairman's Statement

I certify that the Statement of Accounts for 2021/22 were approved by the Audit Committee on 28 September 2022 subject to a further report coming back to the committee indicating a resolution to the national issue relating to infrastructure assets. This update was provided to the Audit Committee on 22 December 2022 and the accounts were re-approved.

Councillor *Derek Mellor* XX September 2023
Chairman of the Audit Committee

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the County Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year.

Movement in Reserves Statement

	General Fund Balance* £'000	Capital Grants Unapplied Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2020	**(476,504)**	**(166,637)**	**(643,141)**	**(2,296,791)**	**(2,939,932)**
Reporting of schools budget deficit to a new adjustment account at 01 April 2020	**(22,754)**	**0**	**(22,754)**	**22,754**	**0**
(Surplus)/Deficit on the provision of services	85,757	0	**85,757**	167,939	**253,696**
Adjustments between accounting basis & funding basis under regulations (note 2)	(174,677)	(35)	**(174,712)**	174,712	**0**
(Increase) / decrease in Year	**(111,674)**	**(35)**	**(111,709)**	**365,405**	**253,696**
Balance at 31 March 2021	**(588,178)**	**(166,672)**	**(754,850)**	**(1,931,386)**	**(2,686,236)**

* includes earmarked reserves

	General Fund Balance* £'000	Capital Grants Unapplied Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2021	**(588,178)**	**(166,672)**	**(754,850)**	**(1,931,386)**	**(2,686,236)**
Reporting of schools budget deficit to a new adjustment account at 01 April 2021		**0**	**0**		**0**
(Surplus)/Deficit on the provision of services	17,692	0	**17,692**	(864,902)	**(847,210)**
Adjustments between accounting basis & funding basis under regulations (note 2)	(116,047)	(29,775)	**(145,822)**	145,822	**0**
(Increase) / decrease in Year	**(98,355)**	**(29,775)**	**(128,130)**	**(719,080)**	**(847,210)**
Balance at 31 March 2022	**(686,533)**	**(196,447)**	**(882,980)**	**(2,650,466)**	**(3,533,446)**
* includes earmarked reserves	(note 4)			(note 3)	

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the County Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

Balance Sheet

31 March 2021 £'000		31 March 2022 £'000	See note
4,433,280	Property, plant & equipment (PPE)	4,521,166	19
105,147	Investment property	145,302	20
259,613	Long-term investments	236,939	22
127,973	Long-term debtors	47,569	22b
4,926,013	**Long-term assets**	**4,950,976**	
1,250	Current assets held for sale	3,043	
195,795	Short-term investments	440,336	22
3,379	Inventories	3,066	
226,825	Short-term debtors	284,275	22c
88,128	Cash and cash equivalents	(1,202)	22a
515,377	**Current assets**	**729,518**	
(215,598)	Short-term Creditors	(207,755)	22g
(51,323)	Short-term borrowing	(53,821)	22d
(8,392)	Deferred liability repayable within one year	(7,669)	18
(31,147)	Grants receipts in advance - revenue	(22,951)	6
(67,511)	Grants receipts in advance - capital	(64,981)	6
(373,971)	**Current liabilities**	**(357,177)**	
141,406	**Net current assets**	**372,341**	
(1,842,287)	Net liability related to defined benefit pension schemes	**(1,259,367)**	24f
(23,713)	Provisions	(20,519)	23
(249,293)	Long-term borrowing	(241,183)	22d
(133,080)	Deferred liabilities	(121,391)	18
(132,810)	Developers' contributions	(147,411)	22f
(2,381,183)	**Long term liabilities**	**(1,789,871)**	
2,686,236	**Total net assets**	**3,533,446**	
	Financed by:		
	Usable reserves		
(588,178)	General Fund and earmarked reserves	(686,533)	4
(166,672)	Capital grants unapplied reserve	(196,447)	4D
(754,850)	**Usable reserves**	**(882,980)**	
(1,931,386)	**Unusable reserves**	**(2,650,466)**	3
(2,686,236)	**Total Reserves**	**(3,533,446)**	

Rob Carr XX September 2023

Chief Financial Officer and Section 151 Officer

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the County Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2020/21 £'000		2021/22 £'000	Note
85,757	Net (surplus) or deficit on the provision of services	17,692	
(164,829)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(361,911)	27a
129,347	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	194,672	27a
50,275	**Net cash (inflow) or outflow from Operating Activities**	**(149,547)**	
27,695	Investing Activities	226,135	27b
14,143	Financing Activities	12,743	27c
92,113	**Net (increase) or decrease in cash and cash equivalents**	**89,331**	
(180,241)	Cash and cash equivalents at the beginning of the reporting period	(88,128)	
(88,128)	**Cash and cash equivalents at the end of the reporting period**	**1,202**	22a

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements: this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Comprehensive Income and Expenditure Statement

2020/21 Gross expenditure £'000	2020/21 Gross Income £'000	2020/21 Net expenditure £'000		2021/22 Gross expenditure £'000	2021/22 Gross Income £'000	2021/22 Net expenditure £'000	Note
663,380	(311,650)	**351,730**	Adults' Health and Care	722,692	(328,890)	**393,802**	
1,110,963	(978,919)	**132,044**	Schools	1,174,938	(1,014,642)	**160,296**	
257,769	(38,145)	**219,624**	Children's Services Non-Schools	307,827	(53,359)	**254,468**	
224,893	(45,316)	**179,577**	Economy, Transport & Environment	217,743	(40,202)	**177,541**	
102,293	(35,917)	**66,376**	Culture, Communities & Business Services	109,015	(36,093)	**72,922**	
114,249	(35,335)	**78,914**	Corporate Services & Other Corporate	104,085	(35,484)	**68,601**	
1,366	0	**1,366**	Change in Provisions	(4,106)	0	**(4,106)**	
50,419	(42,601)	**7,818**	Other items not allocated to services	26,155	(17,328)	**8,827**	
2,525,332	**(1,487,883)**	**1,037,449**	**Cost of Services**	**2,658,349**	**(1,525,998)**	**1,132,351**	11
			Other operating expenditure				
1,453	(3,866)	**(2,413)**	(Gain)/Loss on disposal of assets	18,322	(12,203)	6,119	
13,332		**13,332**	Assets transferred to academy/foundation trust schools	9,336		**9,336**	
56,958	(41,220)	**15,738**	Total financing and investment income & expenditure	57,764	(81,771)	**(24,007)**	5
			Taxation and non-specific grant income				
	(154,808)		Non-ringfenced government grants		(167,518)		6
	(26,782)		Locally retained business rates		(39,147)		
	(671,278)		Council tax income		(716,973)		
	(125,481)		Capital grants and contributions		(182,469)		6
		(978,349)	**Total taxation and non-specific grant income**			**(1,106,107)**	
		85,757	**(Surplus)/Deficit on the provision of services**			**17,692**	
	(55,621)		Net gains on revaluation of property, plant & equipment and financial instruments		(94,908)		3a
	223,560		Actuarial loss/(gain) on pension fund assets and liabilities		(769,994)		24c
		167,939	**Other Comprehensive (Income)/Expenditure**			**(864,902)**	
		253,696	**Total Comprehensive (Income)/Expenditure**			**(847,210)**	

Notes to the Core Financial Statements

Contents

1 Expenditure and Funding Analysis

2020/21 Net Expenditure chargeable to the General Fund Balance £'000	2020/21 Adjustments between accounting and funding basis (see note 2) £'000	2020/21 Net expenditure in the CIES £'000		2021/22 Net Expenditure chargeable to the General Fund Balance £'000	2021/22 Adjustments between accounting and funding basis (see note 2) £'000	2021/22 Net expenditure in the CIES £'000
478,392	(126,662)	351,730	Adults' Health and Care	498,273	(104,471)	393,802
895,862	(763,818)	132,044	Schools	952,863	(792,567)	160,296
228,257	(8,633)	219,624	Children's Services Non-Schools	259,043	(4,575)	254,468
127,759	51,818	179,577	Economy, Transport & Environment	116,981	60,560	177,541
50,222	16,154	66,376	Culture, Communities & Business Services	45,570	27,352	72,922
68,903	10,011	78,914	Corporate Services & Other Corporate	51,611	16,990	68,601
(1,094,483)	1,094,483	0	Specific Grants	(1,133,212)	1,133,212	0
6,689	2,495	9,184	Other items not allocated to services	2,997	1,724	4,721
761,601	**275,848**	**1,037,449**	**Net cost of services**	**794,126**	**338,225**	**1,132,351**
(850,521)	(101,171)	(951,692)	Other income and expenditure	(892,481)	(222,178)	(1,114,659)
(88,920)	**174,677**	**85,757**	**(Surplus) or deficit on the provision of services**	**(98,355)**	**116,047**	**17,692**
(476,504)			**Opening General Fund (including earmarked reserves) balance at 1 April**	**(588,178)**		
(88,920)			Plus (surplus)/deficit on provision of services	(98,355)		
(22,754)			Adjustment for the Dedicated Schools Grant Deficit now established as a separate unusable reserve			
(588,178)			**Closing General Fund (including earmarked reserves) balance at 31 March**	**(686,533)**		

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (government grants, council tax precept and business rates) in comparison with those resources consumed or earned in accordance with generally accepted accounting practice as presented in the Comprehensive Income and Expenditure Statement. The EFA also shows how this expenditure is allocated for decision making purposes between the County Council's services.

2 Adjustments between funding and accounting basis

2021/22 Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Adults & Health	15,702	28,199	(148,372)	(104,471)
Schools	97,356	58,315	(948,238)	(792,567)
Children's Services non-schools	3,407	19,480	(27,462)	(4,575)
Economy, Transport and Environment	64,553	7,418	(11,411)	60,560
Culture, Communities & Business Services	10,562	17,044	(254)	27,352
Corporate Services and other Corporate	690	16,908	(608)	16,990
Other items not allocated to services:				
Specific Grants	0	0	1,133,212	1,133,212
Other	3	1,925	(204)	1,724
Net cost of services	**192,273**	**149,289**	**(3,337)**	**338,225**
Other income and expenditure from the funding analysis	(252,326)	37,784	(7,636)	(222,178)
Difference between the General Fund surplus or deficit and the Comprehensive Income and Expenditure surplus or deficit	**(60,053)**	**187,073**	**(10,973)**	**116,047**
Note a) Adjustments for capital purposes:				
Charges to services for depreciation and impairment	197,833			197,833
Service revenue expenditure funded from capital under statute	(2,319)			(2,319)
Current value of assets disposed	18,308			18,308
Current value of assets transferred to academies	9,336			9,336
Statutory minimum revenue provision for capital financing	(27,646)			(27,646)
External contribution to minimum revenue provision	584			584
Revenue contributions to capital	(7,806)			(7,806)
Capital grants and contributions applied (note i)	(182,469)			(182,469)
Movement in the market value of investment properties	(53,671)			(53,671)
Total transferred to capital adjustment account (including note i)	(47,850)			(47,850)
Transfer asset sale proceeds to capital receipts reserve	(12,203)			(12,203)
Note a) Total	**(60,053)**			(60,053)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Note b) Adjustments for pensions:				
Current service cost of funded local government pensions		234,190		234,190
Past service cost of funded local government pensions		1,401		1,401
Interest on net pension liability		37,784		37,784
Total transferred to Pension Reserve		273,375		273,375
Employer's contributions payable to the pension fund transferred from the Pension Reserve		(86,301)		(86,301)
Note b) Total		**187,074**		187,074
Note c) Other adjustments:				
Difference between accrued cost of employee holiday benefits and those taken, transferred to the accumulated Absences Account			(3,338)	(3,338)
Amortisation of premiums and discounts on financial instruments transferred to the Financial Instruments Adjustment Account			(12,321)	(12,321)
Difference between accrued income from council tax and business rates and that required by statute to be paid over by Billing Authorities, transferred to the Collection Fund Adjustment Account			(19,892)	(19,892)
Increase in the DSG deficit			24,577	24,577
Note c) Total			**(10,974)**	(10,974)
Total adjustments				116,047
(note i) transfer from capital grants unapplied reserve				29,775
Total adjustments between accounting and funding basis under statute				145,822

2020/21 Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a) £'000	Net change for the Pensions Adjustments (Note b) £'000	Other Adjustments (Note c) £'000	Total Adjustments £'000
Adults & Health	5,087	15,826	(147,575)	(126,662)
Schools	112,198	32,811	(908,827)	(763,818)
Children's Services non-schools	1,289	9,002	(18,924)	(8,633)
Economy, Transport and Environment	59,838	4,028	(12,048)	51,818
Culture, Communities & Business Services	9,146	9,751	(2,743)	16,154
Corporate Services and other Corporate	1,100	10,118	(1,207)	10,011
Other items not allocated to services:				
Specific Grants	0	0	1,094,483	1,094,483
Other	3	2,492	0	2,495
Net cost of services	**188,661**	**84,028**	**3,159**	**275,848**
Other income and expenditure from the funding analysis	(152,766)	33,587	18,008	(101,171)
Difference between the General Fund surplus or deficit and the Comprehensive Income and Expenditure surplus or deficit	**35,895**	**117,615**	**21,167**	**174,677**
Note a) Adjustments for capital purposes:				
Charges to services for depreciation and impairment	191,348			191,348
Service revenue expenditure funded from capital under statute	(95)			(95)
Current value of assets disposed	1,439			1,439
Current value of assets transferred to academies	13,331			13,331
Statutory minimum revenue provision for capital financing	(16,756)			(16,756)
External contribution to minimum revenue provision	372			372
Revenue contributions to capital	(17,662)			(17,662)
Capital grants and contributions applied (note i)	(125,481)			(125,481)
Movement in the market value of investment properties	(6,735)			(6,735)
Total transferred to capital adjustment account (including note i)	39,761			39,761
Transfer asset sale proceeds to capital receipts reserve	(3,866)			(3,866)
Note a) Total	**35,895**			**35,895**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Note b) Adjustments for pensions:				
Current service cost of funded local government pensions		165,850		165,850
Past service cost of funded local government pensions		2,333		2,333
Interest on net pension liability		33,587		33,587
Total transferred to Pension Reserve		201,770		201,770
Employer's contributions payable to the pension fund transferred from the Pension Reserve		(84,155)		(84,155)
Note b) Total		**117,615**		**117,615**
Note c) Other adjustments:				
Difference between accrued cost of employee holiday benefits and those taken, transferred to the accumulated Absences Account			3,159	3,159
Amortisation of premiums and discounts on financial instruments transferred to the Financial Instruments Adjustment Account			(17,953)	(17,953)
Difference between accrued income from council tax and business rates and that required by statute to be paid over by Billing Authorities, transferred to the Collection Fund Adjustment Account			23,270	23,270
Increase in the DSG deficit			12,691	12,691
Note c) Total			**21,167**	**21,167**
Total adjustments				174,677
(note i) transfer from capital grants unapplied reserve				35
Total adjustments between accounting and funding basis under statute				**174,712**

3 Unusable reserves

	Balance 1 April 2021 £'000	Movement £'000	Balance 31 March 2022 £'000	*Note*
Revaluation reserve	(1,568,037)	(48,115)	(1,616,152)	*3a*
Capital adjustment account	(2,282,764)	(77,071)	(2,359,835)	*3b*
Pensions reserve	1,842,287	(582,920)	1,259,367	*3c*
Accumulated absences account	16,906	(3,338)	13,568	*3d*
Financial instrument adjustment accounts	11,932	(12,321)	(389)	*3e*
Collection fund adjustment account	12,845	(19,892)	(7,047)	*3f*
DSG deficit	35,445	24,577	60,022	*3g*
	(1,931,386)	**(719,080)**	**(2,650,466)**	

3a Revaluation reserve

The Revaluation Reserve contains the gains made by the County Council since 1 April 2007, arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

2020/21		2021/22
(1,559,801)	Balance at 1 April	(1,568,037)
(55,621)	(Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(94,908)
40,778	Difference between fair value depreciation and historical cost depreciation	39,756
7,508	Write off net gains for assets transferred to Academy/Foundation schools	3,911
(901)	Accumulated gains on assets sold, scrapped or transferred to/from current assets	3,126
47,385	**Amount written off to the Capital Adjustment Account**	46,793
(1,568,037)	**Balance at 31 March**	**(1,616,152)**

3b Capital adjustment account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. This account contains expenditure financed from revenue and capital receipts together with the statutory amount required to provide for the repayment of external loans less the amounts included for depreciation, impairment and revenue expenditure financed by capital under statute and the historic cost of asset disposals. The reserve is not cash backed. The movement in the account is analysed below:

2020/21 £'000		2021/22 £'000	2021/22 £'000
(2,271,309)	Balance brought forward 1 April		**(2,282,764)**
0	HCC debtors	0	
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
191,348	Charges for depreciation and impairment of non-current assets	197,833	
(95)	Revenue expenditure funded from capital under statute	(2,319)	
1,439	Assets disposals current value	18,308	
13,331	Assets transferred to Academy/Foundation schools current value	9,336	
(2,065,286)			**(2,059,606)**
(47,385)	Adjusting amounts written out of Revaluation Reserve		(46,793)
(2,112,671)	**Net amount written out of the cost of assets consumed in the year**		**(2,106,399)**
	Capital financing applied in the year:		
(6,767)	Capital receipts applied	(17,502)	
(16,756)	Statutory minimum revenue provision for capital financing	(27,646)	
372	External contribution to minimum revenue provision	584	
(17,662)	Revenue contributions to capital expenditure	(7,806)	
(125,446)	Capital grants and contributions applied	(152,694)	
(166,259)			**(205,064)**
(6,735)	Movement in the market value of investment properties and pooled property fund		(53,671)
2,901	Write down of capital debtors		5,299
(2,282,764)	**Balance as at 31 March**		**(2,359,835)**

3c Pensions reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The County Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the County Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the resources the Council has set aside to meet the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2020/21 £'000		2021/22 £'000
1,501,112	Balance at 1 April	1,842,287
223,560	Actuarial losses / (gains) on pensions assets and liabilities	(769,994)
201,770	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	273,375
(84,155)	Employer's pensions contributions and direct payments to pensioners payable in the year	(86,301)
1,842,287	**Balance at 31 March**	**1,259,367**

3d Accumulated absences account

The accumulated absences account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

Non-teaching staff work under Employment in Hampshire County Council (EHCC) terms and conditions which permit them to carry forward, in exceptional circumstances, up to 5 days (37 hours) annual leave per year, pro-rated for those working part time. In addition, some staff may have flexible working conditions which permit them to accumulate up to a maximum of 40 hours flexi-time. In this case they can theoretically carry forward up to 40 hours flexi-time from one financial year to another. However, the actual amounts of annual leave and flexi-time carried forward are much lower than the maximum amounts and are similar each year, so an accrual for non-teaching staff is not required.

The Conditions of Service for School Teachers state that teachers should not receive less than one-third of a year's salary for each full term's service. Due to the County Council's policy of a fixed Easter break during April, the pay and leave entitlement for the spring term straddles two financial years. Therefore an accrual is made by charging children's services for the cost of Easter holiday entitlements earned by teachers but not taken until the next financial year.

3e Financial instruments adjustment account

The County Council uses this account to manage premiums paid on the early redemption of loans and fair value changes for pooled investment funds. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, and reversed out of the General Fund balance to the Financial Instruments Adjustment Account in the Movement in reserves statement. The expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax. Fair value changes debited or credited to the provision of services are reversed out of the General Fund balance to the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

3f Collection fund adjustment account

The collection fund adjustment account manages the differences arising from the recognition of council tax and business rate income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Billing Authorities' Collection Funds.

3g Dedicated schools grant adjustment account

This unusable reserve was established by regulation on 1 April 2020 in order to keep separate from the County Council's general fund, any deficits arising from schools budget expenditure that exceeds the available funding provided through the annual dedicated schools grant (DSG). This accounting treatment is limited to the financial reporting periods 2020/21, 2021/22 and 2022/23 to provide time for Government and local authorities to look at budgetary and financial management strategies to reduce the deficits.

4 General Fund and earmarked reserves

The County Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate heading within the Comprehensive Income and Expenditure Statement in that year and is included in the Surplus or Deficit on the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

	Balance 1 April 2020 £'000	Movement in 2020/21 £'000	Balance 31 March 2021 £'000	Movement in 2021/22 £'000	Balance 31 March 2022 £'000	*See note*
Revenue Reserves						
A. General Fund Balance	(22,298)	(900)	**(23,198)**	(900)	**(24,098)**	*a*
B. County Council Earmarked Revenue Reserves						
Fully Committed to Existing Spend Programmes						
Revenue Grants Unapplied	(38,111)	19,142	**(18,969)**	10,532	**(8,438)**	*b*
General Capital Reserve	(112,357)	(36,606)	**(148,963)**	(18,452)	**(167,414)**	*c*
Street Lighting Reserve	(27,527)	299	**(27,228)**	393	**(26,835)**	*d*
Public Health Reserve	(5,480)	(278)	**(5,758)**	(3,111)	**(8,869)**	*e*
Other	(1,071)	(126)	**(1,197)**	(164)	**(1,361)**	*f*
	(184,546)	**(17,569)**	**(202,115)**	**(10,802)**	**(212,917)**	
Departmental / Trading Reserves						
Trading Accounts	(6,725)	(2,075)	**(8,800)**	(2,238)	**(11,038)**	*g*
Departmental Cost of Change	(85,492)	(55,198)	**(140,690)**	(34,389)	**(175,079)**	*h*
	(92,217)	**(57,273)**	**(149,490)**	**(36,627)**	**(186,117)**	
Risk Reserves						
Insurance	(40,955)	1,366	**(39,589)**	(4,095)	**(43,684)**	*i*
Investment Risk	(4,958)	(1,292)	**(6,250)**	0	**(6,250)**	*j*
	(45,913)	**74**	**(45,839)**	**(4,095)**	**(49,934)**	
Corporate Reserves						
Budget Bridging Reserve	(78,509)	10,339	**(68,170)**	(30,801)	**(98,971)**	*k*
Invest To Save	(22,290)	5,075	**(17,215)**	1,634	**(15,581)**	*l*
Corporate Policy	(6,852)	(448)	**(7,300)**	(807)	**(8,107)**	*m*
Organisational Change	(3,442)	20	**(3,422)**	259	**(3,163)**	*n*
	(111,093)	**14,986**	**(96,107)**	**(29,715)**	**(125,822)**	
Total Earmarked Revenue Reserves available to the County Council	**(433,769)**	**(59,783)**	**(493,552)**	**(81,239)**	**(574,790)**	
C. Other Earmarked Revenue Reserves						
EM3 LEP Reserve	(5,081)	321	**(4,760)**	1,019	**(3,741)**	*p*
Schools Reserves	(15,355)	(51,312)	**(66,667)**	(17,236)	**(83,903)**	*q*
Total Revenue Reserves and Balances	**(476,503)**	**(111,675)**	**(588,178)**	**(98,355)**	**(686,533)**	
D. Capital Reserves						
Capital Grants Unapplied	(166,637)	(35)	**(166,672)**	(29,775)	**(196,447)**	*r*
Total Capital Reserves and Balances	**(166,637)**	**(35)**	**(166,672)**	**(29,775)**	**(196,447)**	
Total Usable Reserves	**(643,140)**	**(111,709)**	**(754,850)**	**(128,131)**	**(882,980)**	

a The General Fund Balance is the surplus of revenue income over expenditure. It can be used to supplement income in future years

b The revenue grants unapplied reserve was established to reflect change in accounting practice under IFRS, requiring grants to be accounted for in advance of the matched spending being incurred, where there is no repayment condition.

c The general capital reserve is to assist in matching the timing of the availability of capital financing resources with the timing of capital payment.

d The street lighting reserve represents the anticipated surplus generated by the financial model for this PFI scheme that is invested up front and then applied to the contract payments for future years.

e The Public Health reserve represents the balance of the ring-fenced government grant carried forward for future Public Health expenditure.

f Other smaller reserves are sums set aside for specific future purposes.

g The trading accounts reserve enable business units to carry forward planned surpluses to cover future investment or possible losses.

h The departmental cost of change reserve enables individual services to carry forward underspends in order to invest in technology and other service improvements and meet the cost of significant change programmes and restructures

i The County Council self-insures against certain types of risks and the level of the insurance reserve is based on an independent valuation of past claims experience and the level and nature of current outstanding claims.

j The Investment Risk reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy as a prudent response to targeting investments with higher returns.

k The budget bridging reserve, formerly known as the grant equalisation reserve, is used to smooth the impact of funding reductions and service and inflationary pressures.

l The invest-to-save reserve is to provide funding for investment which will generate further revenue savings in the future.

m The corporate policy reserve is available to fund new budget initiatives that are agreed as part of the overall budget. It offers the opportunity to introduce specific service initiatives that might not have otherwise gained funding and are designed to have a high impact on service users or locations where they are applied.

n The organisational change reserve was established in 2010/11 from contributions from the corporate policy and invest to save reserves to fund the additional cost of the voluntary redundancy scheme implemented to facilitate staffing reductions on a voluntary basis, and provide funding for organisational development.

p The EM3 LEP reserve represents underspending of EM3 LEP funding carried forward for future expenditure.

q The purpose of the Schools reserve is to earmark the balance of unspent delegated budgets. They are not available to other services.

r The capital grants unapplied reserve holds capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

5 Financing and investment income and expenditure

2020/21 £'000		2021/22 £'000
20,752	Interest payable	18,361
(14,738)	Interest receivable	(14,062)
(24,142)	Pooled Investment Funds & Investment property (gains) and losses	(65,447)
33,587	Pension interest	37,784
(2,340)	(Surplus)/deficit on internal trading undertakings	(2,262)
2,619	Increase in Expected Credit Losses	1,619
15,738	**Total within other operating expenditure**	**(24,007)**

6 Government Grants and other contributions

Government grants and third party contributions are recognised as income at the date that the County Council satisfies the conditions of entitlement to the grant or contribution.

Grants and contributions which have outstanding conditions are carried in the Balance Sheet as creditors (receipts in advance). When conditions are satisfied, or where there are no conditions attached to the grant or contribution and there is reasonable assurance that the monies will be received and that the expenditure for which the grant has been given has been or will be incurred, the income is credited to the Comprehensive Income and Expenditure Statement as follows:

- To the relevant service for revenue grants and contributions and capital grants used to fund revenue expenditure funded by capital under statute
- To the Taxation and Non-Specific Grant Income section for non-ring-fenced revenue grants and contributions and all other capital grants and contributions.

In deciding if developer contribution agreements have conditions attached the County Council has applied the substance over form concept and assumed that all agreements have a constructive obligation to repay contributions if not used even if this is not explicit in the agreement.

Capital grants credited to the Comprehensive Income and Expenditure Statement, are reversed out of the General Fund in the Movement in Reserves Statement. Capital grants applied in the year, are posted to the Capital Adjustment Account. Where the grant has yet to be used to finance capital expenditure, it is transferred to the Capital Grants and Contributions Unapplied Reserve. Amounts in the Capital Grants and Contributions Unapplied Reserve that are subsequently applied in future years will be transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where revenue grants have been credited to the Comprehensive Income and Expenditure Statement but are yet to be used, they are transferred to an earmarked reserve in the Movement in Reserves Statement. Once used in subsequent years, they are transferred to the General Fund to fund the revenue expenditure.

Grant and contribution income credited to the Comprehensive Income and Expenditure Statement:

2020/21 £'000	Credited to Taxation and Non Specific Grant Income	2021/22 £'000
	Capital Grants and Contributions:	
(420)	Contributions from other Local Authorities	(2,275)
(13,533)	Department for Transport Grants	(22,536)
(24,396)	Developer's contributions	(30,374)
(14,252)	Disabled Facilities Grant	(14,252)
(31,546)	EM3 Local Enterprise Partnership	(7,598)
(402)	Emergency Active Travel Fund Tranche 2	(1,075)
(23,115)	ESFA Free School Grant	(2,747)
0	Homes England HIF - Capacity Fund	(1,250)
(5,659)	Housing Infrastructure Fund (HIF) Grant	(4,341)
(23,956)	Local Transport Capital Block Funding Grant	(11,145)
(4,638)	National Productivity Incentive Fund	(1,408)
(4,495)	National Productivity Incentive Grant	(3,721)
(43,150)	Other contributions & Misc Income	(28,072)
(11)	Public Sector Decarbonisation Scheme Grant	(25,627)
(1,243)	Schools Basic Needs Grant	(40,904)
(22,933)	Schools Condition Allocation	(20,270)
(3,857)	Schools Devolved Formula Capital	(3,034)
0	Schools High Needs Grant	(6,789)
92,125	**Less: Capital income used to fund revenue expenditure under statute**	**44,950**
(125,481)		(182,469)
(154,808)	Non-ringfenced Government grants	(167,518)
(280,289)	**Total**	**(349,987)**

2020/21 £'000	Credited to services	2021/22 £'000
(18,908)	Better Care Fund	(18,908)
(1,069)	Bus Service Operators Grant	(1,069)
(3,527)	Covid-19 Adult Social Care Rapid Testing Fund	(382)
(33,675)	Covid-19 Adults Social Care Infection Control Fund (ICTF)	(27,078)
(3,803)	Covid-19 Clinically Extremely Vulnerable (CEV) Grant	(243)
(1,037)	Covid-19 Emergency Assistance Grant	0
(315)	Covid-19 Holiday Activities Food Programme (HAF)	(2,863)
0	Covid-19 Local Support Grant Allocation	(3,410)
(699)	Covid-19 Mass Testing Fund	(1,335)
0	Covid-19 Omicron Support Fund	(1,189)
0	Covid-19 Practical Support (Self Isolation)	(2,203)
0	Covid-19 Recovery Premium	(1,899)
(3,483)	Covid-19 Sales, Fees and Charges Grant	(194)
(6,803)	Covid-19 School Catch Up Grant	(4,863)
(1,917)	Covid-19 School Fund Grant	0
(14,395)	Covid-19 Surge Funding / additional Contain Outbreak Management F	(15,946)
(3,810)	Covid-19 Winter Grant Scheme (WGS)	(97)
(2,127)	Covid-19 Workforce Capacity Grant	(251)
(1,513)	Covid-19 Other Specific Grants	(3,119)
(811,186)	Dedicated Schools Grant (DSG)	(874,186)
0	Domestic Abuse Capacity Building Fund	(1,353)
(16,452)	Free School Meals - Universal (UIFSM)	(13,608)
(11,452)	Improved Better Care Fund	(11,452)
(4,082)	Independent Living Fund	(4,082)
(1,717)	Music Grant	(1,723)
0	New Household Fund Grant	(6,834)
(7,730)	Other Specific Grants	(8,118)
(1,056)	Partners in Practice (PiP)	(350)
(7,566)	PE & Sport Grant	(7,472)
(34,850)	Per Pupil Premium	(36,033)
(9,373)	PFI Street Lighting Grant	(9,373)
(52,388)	Public Health Grants	(52,925)
(1,882)	School Improvement Grant & Brokering Grant	(1,741)
0	School-led Tutoring	(1,730)
(1,729)	Supporting Troubled Families (SFP)	(2,050)
(7,804)	Teachers Pay Grant	(77)
(22,952)	Teachers Pensions Grant	(218)
(5,186)	Unaccompanied Asylum Seeking Children (UASC)	(5,783)
0	Workforce Recruitment and Retention Fund for Adult Social Care	(9,047)
(152,066)	Other grants and contributions	(164,111)
(1,889)	Developers Contributions	(2,636)
(92,125)	Capital grants and contributions released to fund revenue expenditure (REFCUS)	**(44,950)**
(1,340,566)	**Total**	**(1,344,900)**

The County Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver if the condition is not met.

31 March 2021 £'000	Capital grants and contributions receipts in advance	31 March 2022 £'000
(1,408)	Additional Highways Funding	0
(17,647)	Department for Transport Grant	(34,298)
(5,005)	DfT Sect 31 Grant - Safer Routes	(4,653)
(2,146)	ESFA Free School Grant	0
(2,654)	Getting Building Fund	(497)
(1,201)	Other Capital grants receipts in advance	(1,370)
(11,978)	Pot Hole Grant	0
(12,375)	Public Sector Decarbonisation Grant (Salix)	(3,610)
(6,472)	Schools Devolved Formula Capital	(6,784)
(3,054)	Special Educational Needs and Disability	(2,072)
(3,571)	Transforming Cities Fund	(11,697)
(67,511)	**Total**	**(64,981)**

31 March 2021 £'000	Revenue grants receipts in advance	31 March 2022 £'000
0	Afghan Citizens Resettlement Scheme - Adults & Childrens	(1,334)
(18,102)	Covid-19 Contain Outbreak Management Fund	(8,344)
(1,082)	Covid-19 Rapid Testing Fund	0
(4,790)	Covid-19 Track and Trace Grant	(4,790)
(697)	Covid-19 Other Revenue grants receipts in advance	(971)
(5,531)	Other Revenue grants receipts in advance	(6,511)
(945)	Single Farm Payments European Grant	(1,001)
(31,147)	**Total**	**(22,951)**

7 Dedicated Schools Grant (DSG)

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2021/22 are as follows:

	Central expenditure £'000	Individual Schools Budget £'000	2021/22 Total £'000
Final DSG for 2021/22 before Academy and High Needs Recoupment			(1,105,898)
Academy and High Needs figure recouped for 2021/22			232,744
Total DSG after Academy and High Needs recoupment for 2021/22			(873,154)
Plus brought forward from 2020/21			0
Less carry forward to 2022/23 agreed in advance			0
Agreed initial budgeted distribution in 2021/22	(126,372)	(746,782)	(873,154)
In year adjustments		(1,032)	(1,032)
Final budget distribution in 2021/22	**(126,372)**	**(747,814)**	**(874,186)**
Less Actual central expenditure	152,573		152,573
Less Actual ISB deployed to schools		746,190	746,190
In year carry forward to 2022/23	**26,201**	**(1,624)**	**24,577**
DSG deficit unusable reserve at 1 April 2021			**35,445**
Addition to DSG unusable reserve at the end of 2021/22			24,577
Total of DSG unusable reserve at 31 March 2022			**60,022**
Net DSG position at the end of 2021/22			**60,022**

8 Officers' remuneration (including senior employees' remuneration and termination agreements)

Employee benefits

Benefits payable during employment
Short-term employee benefits, such as salaries, paid annual leave, paid sick leave and non-monetary benefits for current employees, are recognised as an expense in the year in which employees render service to the County Council.

Termination benefits
Termination benefits are amounts payable as a result of a decision by the County Council to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the Comprehensive Income and Expenditure Statement (as part of the cost of services) when a termination notice has been issued to an employee. A provision for termination costs is included in the Comprehensive Income and Expenditure Statement (as part of the cost of services) where there is an agreed business case setting out the estimated termination costs resulting from a proposed restructuring.

Where termination benefits involve the enhancement of pensions by way of added years, legislation requires the General Fund Balance to be charged with the amount payable by the County Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional charges for termination benefits and replace them with a charge for the actual amounts payable to the former employee and the pension fund.

8a Officer remuneration

The number of employees whose remuneration during the year was £50,000 or more, in bands of £5,000, is shown below, excluding those that are senior employees (see note 8b). Remuneration includes all amounts paid to an employee, including the taxable value of expenses.

Number of employees 2020/21			Including termination payments	Number of employees 2021/22		
Schools	**Other**	**Total**		**Schools**	**Other**	**Total**
323	282	**605**	£50,000 - £54,999	332	223	**555**
201	129	**330**	£55,000 - £59,999	189	252	**441**
126	138	**264**	£60,000 - £64,999	123	76	**199**
140	58	**198**	£65,000 - £69,999	138	133	**271**
70	27	**97**	£70,000 - £74,999	85	15	**100**
42	23	**65**	£75,000 - £79,999	44	33	**77**
27	49	**76**	£80,000 - £84,999	25	41	**66**
14	7	**21**	£85,000 - £89,999	12	10	**22**
9	16	**25**	£90,000 - £94,999	13	1	**14**
4	6	**10**	£95,000 - £99,999	3	11	**14**
7	8	**15**	£100,000 - £104,999	9	10	**19**
1	3	**4**	£105,000 - £109,999	2	7	**9**
1	3	**4**	£110,000 - £114,999	1	0	**1**
4	0	**4**	£115,000 - £119,999	3	3	**6**
1	1	**2**	£120,000 - £124,999	0	0	**0**
0	0	**0**	£125,000 - £129,999	1	1	**2**
0	2	**2**	£130,000 - £134,999	0	0	**0**
0	0	**0**	£135,000 - £139,999	1	2	**3**
0	1	**1**	£140,000 - £144,999	0	1	**1**
970	**753**	**1,723**		**981**	**819**	**1,800**

Number of employees 2020/21			Excluding termination payments	Number of employees 2021/22		
Schools	Other	Total		Schools	Other	Total
323	283	**606**	£50,000 - £54,999	329	217	**546**
201	126	**327**	£55,000 - £59,999	187	252	**439**
126	137	**263**	£60,000 - £64,999	121	77	**198**
140	58	**198**	£65,000 - £69,999	137	132	**269**
70	26	**96**	£70,000 - £74,999	85	16	**101**
42	22	**64**	£75,000 - £79,999	43	33	**76**
27	49	**76**	£80,000 - £84,999	25	42	**67**
14	5	**19**	£85,000 - £89,999	12	10	**22**
9	16	**25**	£90,000 - £94,999	13	1	**14**
4	6	**10**	£95,000 - £99,999	3	10	**13**
7	8	**15**	£100,000 - £104,999	9	11	**20**
1	3	**4**	£105,000 - £109,999	2	7	**9**
1	3	**4**	£110,000 - £114,999	1	0	**1**
4	0	**4**	£115,000 - £119,999	3	3	**6**
1	1	**2**	£120,000 - £124,999	0	0	**0**
0	0	**0**	£125,000 - £129,999	1	1	**2**
0	2	**2**	£130,000 - £134,999	0	0	**0**
0	0	**0**	£135,000 - £139,999	1	1	**2**
0	1	**1**	£140,000 - £144,999	0	0	**0**
970	**746**	**1,716**		**972**	**813**	**1,785**

8b Senior employees' remuneration

This statement covers the remuneration of Chief Officers.

Senior employees 2021/22	Salary, (Including fees and allowances) £	Expense Allowances £	Benefits in Kind £	Compensation for Loss of Office £	Pension contribution £	Total remuneration including pension contributions £
Chief Executive (01/04/2021 - 18/07/2021)						
John Coughlan	77,827	-	-	-	-	77,827
Chief Executive (19/07/2021 - 31/03/2022)	164,909	-	-	-	-	164,909
Carolyn Williamson						
Deputy Chief Executive and Director of Corporate Resources (01/04/2021 - 18/07/2021)						
Carolyn Williamson	59,726	-	-	-	-	59,726
Director of Children's Services						
Steve Crocker	172,271	-	-	-	31,698	203,969
Director of Adults' Health & Care						
Graham Allen	173,300	-	-	-	31,887	205,187
Director of Economy, Transport and Environment						
Stuart Jarvis	157,483	-	-	-	-	157,483
Director of Community, Culture and Business Services						
Felicity Roe	157,483	-	-	-	28,977	186,460
Director of Public Health	125,003	-	-	-	23,001	148,004
Director of Corporate Operations (19/07/2021 - 31/03/2022)						
Rob Carr	116,775	-	-	-	-	116,775
Director of HR, Organisational Development and Communications and Engagement (19/07/2021 - 31/03/2022)	103,514	-	-	-	20,364	123,878
Head of Law and Governance (12/05/2021 - 31/03/2022)	85,770	-	-	-	15,782	101,551
Director of Transformation and Governance and Deputy Director of Adults' Health and Care (01/04/2021 - 11/05/2021)	15,364	-	-	-	2,153	17,517
Assistant Chief Executive (01/04/2021 - 24/10/2021)	59,714	-	-	-	10,987	70,701
Assistant Chief Executive (01/01/2022 - 31/03/2022)	33,069	-	-	-	6,383	39,452

Salary costs for the Director of Corporate Operations and the Director of HR, Organisational Development and Communications and Engagement are partly funded from partnership income. This also applied to the Deputy Chief Executive and Director of Corporate Resources up to 18 July 2021. In addition, offset against the salary costs of the Director of Children's Services and the Director of Public Health are contributions from the Isle of Wight Council as part of the County Council's partnership agreement.
2020/21 has been restated to include the Director of Public Health on the same basis, as they had not been included in the note published previously.

Senior employees 2020/21	Salary, (Including fees and allowances) £	Expense Allowances £	Benefits in Kind £	Compensation for Loss of Office £	Pension contribution £	Total remuneration including pension contributions £
Chief Executive						
John Coughlan	231,115	-	-	-	299,646	530,761
Deputy Chief Executive and Director of Corporate Resources						
Carolyn Williamson	196,719	-	-	-	-	196,719
Director of Children's Services						
Steve Crocker	163,575	-	-	-	30,098	193,673
Director of Adults' Health & Care						
Graham Allen	163,575	-	-	-	30,098	193,673
Director of Economy, Transport and Environment						
Stuart Jarvis	154,774	-	-	-	-	154,774
Director of Community, Culture and Business Services						
Felicity Roe	154,774	-	-	-	28,478	183,252
Director of Public Health	123,025	-	-	-	22,637	145,662
Director of Transformation and Governance and Deputy Director of Adults' Health and Care	140,426	-	-	-	25,838	166,264
Assistant Chief Executive	105,779	-	-	-	19,463	125,242

The pension contribution shown for the Chief Executive relates to the discharge of a contractual commitment in respect of his pension benefits.

8c Exit Packages

The exit package cost includes compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

The information for 2020/21 has been restated to add pension contributions in respect of added years, ex-gratia payments and other departures costs. Exit packages relating to employees in Hampshire County Council maintained schools have also been added to the Schools 2020/21 restated note. In total these changes have increased the number of exit packages for Schools by 83 and for Non-schools by 74, and increased the total cost of exit packages by £611,000 for Schools and £1,381,000 for Non-schools

Schools 2020/21 (restated)

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total redundancy costs in each band £'000
£0-£40,000	42	41	83	485
£60,001-£80,000	2	0	2	151
	44	**41**	**85**	**636**

Non-schools 2020/21 (restated)

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages	Total redundancy costs in each band £'000
£0 - £20,000	23	128	151	733
£20,001 - £40,000	0	10	10	267
£40,001 - £60,000	0	5	5	237
£60,001 - £80,000	0	2	2	151
£80,001 - £100,000	0	2	2	165
£100,001 - £200,000	0	5	5	620
	23	**152**	**175**	**2,173**

Schools 2021/22

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages	Total redundancy costs in each band £'000
£0 - £20,000	54	74	128	707
£20,001 - £40,000	5	4	9	260
£40,001 - £80,000	3	1	4	220
	62	**79**	**141**	**1,187**

Non-schools 2021/22

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages	Total redundancy costs in each band £'000
£0 - £20,000	21	76	97	397
£20,001 - £40,000	4	9	13	352
£40,001 - £60,000	0	4	4	203
£60,001 - £80,000	1	1	2	133
£80,001 - £100,000	0	2	2	181
£100,001 - £150,000	0	3	3	348
£200,001 - £250,000	0	2	2	458
Total number of packages	**26**	**97**	**123**	**2,072**

9 Members' allowances

The Authority paid the following amounts to members of the council during the year.

2020/21 £'000		2021/22 £'000
1,395	Allowances	1,386
16	Expenses	38
1,411	**Total**	**1,424**

10 External Audit fees

Fees charged by the County Council's external auditor can be analysed as follows:

2020/21 £'000		2021/22 £'000
90	Fees payable to EY with regard to external audit services carried out by the appointed auditor for the year	90
68	Fees payable to the appointed auditor for services over and above those for external audit services	68
8	Grant Claims audited by other audit firms	6

11 Nature of Expenses

The Cost of Services includes the following items of income and expenditure:

2020/21 £'000		2021/22 £'000	Note
667,886	Employee Benefit Expenses - schools	716,880	a
489,855	Employee Benefit Expenses - other	548,133	a
1,178,929	Other Service Expenses	1,168,242	b
188,662	Depreciation and Impairment	225,094	c
2,525,332	**Total Expenditure**	**2,658,349**	
(1,340,566)	Grants, contributions and reimbursements	(1,344,900)	
(147,317)	Fees, charges and other service income	(181,098)	12
(1,487,883)	**Total Income**	**(1,525,998)**	
1,037,449	**Net Cost of Services**	**1,132,351**	

a) Employee benefit expenses include pay, employer national insurance contributions, employer pension contributions and other employee benefits. Accounting adjustments are then made under IAS19 so that the expenditure in the CIES reflects the current service cost of the benefit granted in the period, rather than the payments made.

b) Other service expenses includes costs relating to premises, transport, supplies and services. An accounting adjustment is made so that the charge to the CIES also includes revenue expenditure funded by capital under statute (REFCUS).

c) Depreciation and impairment charges are made to the CIES to reflect the use of fixed assets during the period. These are not chargeable to the general fund.

12 Income received from external customers

2020/21 £'000		2021/22 £'000
(67,744)	Adults & Health	(74,136)
(20,771)	Schools	(43,197)
(1,937)	Children's Services Non-Schools	(3,596)
(17,760)	Economy, Transport & Environment	(19,238)
(31,258)	CCBS	(33,618)
(4,269)	Corporate Services & Other Corporate	(4,469)
(3,578)	Other items not allocated to services	(2,844)
(147,317)	**Total income from external customers analysed by service**	**(181,098)**

13 Related party transactions

The Council is required to disclose material transactions with related parties. Related parties are bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosing these shows the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grant receipts are shown in note 6.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2021/22 is shown in note 9. Before every decision making meeting, members are required to disclose any conflicts of interest. There were 16 related party transactions totalling £17,379 arising from disbursements from members' devolved budgets. A protocol is in place for payments to a related party to be counter signed by a member other than the budget-holding member.

Officers

There were no related-party transactions involving chief officers of the Council. Details of senior officer remuneration are given in note 8.

Limited Companies

Hampshire County Council owns a 51% share in the Reading Hampshire Property Partnership Ltd (RHPP), which commenced operations on 1 April 2014. This is a public to public venture, based on the Teckal principal, to provide property services to Reading Borough Council. The Board of Directors is made up of two Assistant Directors from Hampshire County Council and two from Reading Borough Council. The turnover during 2021/22 was £2.1 million (£1.4 million 2020/21).

The County Council is an equal partner with Basingstoke and Deane Borough Council in the Manydown Garden Communities Limited Liability Partnership (MGCLLP) which was first registered on 6 August 2018. MGCLLP has been set up to act on behalf of the two councils in the Manydown development. http://manydownbasingstoke.co.uk/
MGCLLP will own and manage the land interests until they are transferred to end owner occupiers. Transactions in 2020/21 totalled £0.2m for administrative and professional fees.

The County Council has a 50% share of Hampshire & Kent Commercial Services LLP incorporated on 1 November 2018. This joint operation commenced operations on 1 April 2019 for the purposes of creating a new agency staff solution primarily for Hampshire and Kent County Councils. During 2021/22, Hampshire County Council purchased agency staff to the value of £30 million (£26.6 2020/21) and this expenditure is included in the consolidated income and expenditure statement. The estimated net profit of the partnership for the year is £503,100 (subject to audit). The Authority's share of the dividend is expected to be £251,550.

Other Public Bodies

The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees and those of other local authorities in the county area. There are a total of 350 contributing scheduled, admitted, community admission, transferee admission, and resolution bodies in the Pension Fund (337 in 2020/21). The County Council's administration charge to the Pension Fund in 2021/22 was £3.1 million (£3.0 million in 2020/21).

14 Collaborative Arrangements and Group Accounts

In accordance with the Code of Practice the County Council has carried out an assessment of its interests in other entities to determine the nature of any group relationships that exist. This includes an assessment of the extent of the County Council's control over the entity considered either through ownership (such as shareholding) or representation on an entity's board of directors. The main interests held by the County Council in other entities are detailed below. However, none are considered material and thus the production of group accounts is not required.

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. The County Council recognises the assets that it controls and the liabilities that it incurs on its Balance Sheet, and the expenditure it incurs and the share of income it earns from the activity of the operation on its Comprehensive Income and Expenditure Statement.

The County Council owns a 51% share of the Reading Hampshire Property Partnership Limited which was formally incorporated on 4 March 2014 with Companies House. This is a joint public to public venture entirely owned by Hampshire County Council and Reading Borough Council and is limited by shares. It commenced operations in April 2014 and its financial impact on the County Council is anticipated to be immaterial following the elimination of intragroup transactions.

The County Council has a 50% share of the Manydown Community Gardens Limited Liability Partnership (LLP) incorporated on 6 August 2018. This joint venture with Basingstoke and Deane Borough Council has been set up to act on behalf of the two councils on the Manydown development. Transactions in 2020/21 totalled £0.2m for administrative and professional fees. The County Council's 50% share of this total is not material.

The County Council has a 50% share of Hampshire & Kent Commercial Services LLP incorporated on 1 November 2018. This joint operation commenced operations on 1 April 2019 for the purposes of creating a new agency staff solution primarily for Hampshire and Kent County Councils. The estimated net profit of the partnership for the year is £503,100 (subject to audit).

The County Council is the accountable body for the funding of the Enterprise EM3 Local Enterprise Partnership (EM3 LEP). The EM3 LEP will either grant or loan funds to organisations in the private and public sectors to generate economic growth in the local area. The Government now expects all LEPs to have put "into place appropriate arrangements for the proper use and administration of funding, building on the existing local government systems and which fall under the annual audit of the local authorities accounts”. The accountable local authority is also deemed to have “responsibility for the decisions of the LEP in approving projects (for example if subjected to legal challenge)”. The County Council has therefore included the EM3 LEP’s income, expenditure, assets and liabilities in its accounts.

The County Council is corporate trustee or the designated treasurer for a number of trust funds. These are not disclosed in the accounts as they have no effect on the financial performance or position of the County Council.

15 Structured entities – Hampshire Cultural Trust

From November 2014 the County Council’s Arts and Museums Service transferred to an independent charitable trust, the Hampshire Cultural Trust. It has been funded by grants from Hampshire County Council, local district and borough councils, central government bodies such as the Arts Council and by individual donations.

The County Council does not have a controlling influence over the Trust, and therefore will not consolidate into group accounts. However, Hampshire Cultural Trust requires the use of assets retained by the County Council to operate the arts and museums service and is therefore being accounted for as a structured entity.

The County Council has planned a level of revenue grant funding with the trust for the next 3 years totalling £7.5 million.

Hampshire Cultural Trust Nature of risks

The maximum exposure to loss from the Trust is the annual grant paid to the Trust for services not yet delivered. At 31 March 2022 the exposure to risk was nil as the service had been received. Future risk is minimised by the terms within the Management and Funding Agreement between the County Council and the Trust.

2020/21 £'000		2021/22 £'000
46,527	Operational land and buildings retained by the County Council and used by the Trust	55,444
2,886	Community assets retained by the County Council and used by the Trust	2,886
	Collections of heritage assets retained by the County Council and managed by the Trust (not valued as explained in note 19)	
(2,309)	Annual County Council revenue grant provided to the Trust	(2,315)
(3,146)	Other unrestricted income received by the Trust	(3,840)
5,147	Unrestricted expenditure by the Trust	6,077
(1,778)	Trusts' unrestricted reserves	(1,836)

16 Capital financing

The County Council's borrowing for capital purposes is controlled under the CIPFA Prudential Code for Capital Finance in Local Authorities. The total borrowing is expressed as the Capital Financing Requirement and is derived from the opening Balance Sheet.

Capital Financing Requirement

The total amount of capital expenditure incurred in the year is shown in the table (including the value of assets acquired under finance leases and expenditure of the EM3 Local Enterprise Partnership), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2020/21 £'000		2021/22 £'000
783,477	*Opening capital financing requirement*	776,456
	Capital investment:	
149,675	Capital spending on property, plant and equipment	143,705
92,029	Revenue expenditure funded by capital under statute	42,631
0	Loans advanced for capital expenditure	0
10,000	Pooled Investment Property Fund	0
1,035,181		962,792
	Funded by:	
(6,767)	Capital receipts	(17,502)
(217,540)	Grants and other income	(196,998)
	Revenue contributions to capital outlay	
(12,915)	- main contribution	(11,319)
(4,747)	- reserves	3,513
(16,756)	Minimum revenue provision	(27,646)
776,456	**Closing capital financing requirement**	**712,840**
	Explanation of movements in year	
(357)	Increase/(decrease) in borrowing (supported by government financial assistance)	(5,411)
1,298	Increase/(decrease) in borrowing (unsupported by government financial assistance)	21,686
(7,962)	Increase/(decrease) in borrowing related to PFI contracts	(12,412)
(7,021)	**Increase/(decrease) in Capital Financing Requirement**	**3,863**

Revenue expenditure funded from capital under statute

Legislation allows some expenditure (such as grants to external organisations for capital purposes and spending on buildings not owned by the County Council) to be funded from capital resources. Such expenditure is not carried on the Balance Sheet and is charged to the Income and Expenditure Statement in the year it is incurred. However, so that it does not impact on the year's council tax, an adjustment is made in the Movement in Reserves Statement.

Minimum Revenue Provision

Minimum Revenue Provision (MRP) is the minimum amount the County Council must charge to its revenue account to provide for the repayment of debt.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 requires the County Council to determine for the current financial year an amount of MRP which it considers to be prudent. In calculating MRP the County

Council is required by the Local Government Act (2003) to have regard to guidance issued by the Secretary of State. The relevant guidance for 2021/22 was issued by the MHCLG in 2018. Under this guidance, the County Council's agreed policy is to charge MRP on a straight line basis on supported borrowing from 2008 based on the capital financing requirement at the start of the financial year, where supported borrowing refers to historical borrowing prior to 2008 that was originally supported by grant income rolled into Revenue Support Grant.

This policy was implemented in 2015, therefore the actual supported borrowing MRP was based on 43 remaining years. Had the County Council been applying the new policy on a 50 year straight line calculation starting in 2008 it would have made £68m less in MRP payments by 31 March 2016. Starting in 2016/17 the County Council paused making MRP payments on supported borrowing until it had realigned the total amount of MRP payments with the new policy, which happened during 2021/22. This policy continues the County Council's prudent approach of repaying expenditure financed by borrowing sooner, on a straight line basis.

For unsupported borrowing incurred after 1 April 2008, the County Council's policy is to apply the asset life or depreciation methods provided by the guidance. MRP charges commence in the financial year following the one in which the capital expenditure was incurred. Where the borrowing is in effect a bridging loan from a guaranteed future income source, such as Section 106 Developers Contributions, MRP will not be applied. For deferred liabilities relating to PFI and service concessions, minimum revenue provision will match the principal repayment of the associated deferred liability over the life of the related asset.

17 Leases

Leases are arrangements that convey the right to use an asset in return for a payment or series of payments even if the arrangement does not take the legal form of a lease. Leases are classified as either finance leases or operating leases. A finance lease is any arrangement where substantially all of the risks and rewards, incidental to ownership of the asset, transfer from the lessor to the lessee. Leases that do not transfer substantially all of the risks and rewards are classified as operating leases.

Where an arrangement includes both land and buildings, the land and buildings elements are considered separately for classification and, in general, leases of land are considered to be operating leases.

Lease classifications are determined individually by carrying out a number of qualitative and quantitative tests and then making a judgement based on the overall outcomes of the tests. For the purposes of lease classifications a de minimis level is used of £500,000.

At 31 March 2022 the County Council has not taken or granted any finance leases over the de minimis level of £500,000.

17a The County Council as lessee:

Operating Leases - Where the County Council leases a material asset under an operating lease the asset is not recognised in the balance sheet. Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to the services that benefit from use of the leased asset. Charges are made on a straight-line basis over the life of the lease.

Some property, items of equipment and vehicles are used by entering into operating leases. The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £2.33 million (£3.23 million in 2020/21).

The future minimum lease payments due under non-cancellable leases in future years are:

2020/21 £'000		2021/22 £'000
3,400	Not later than one year	2,310
5,802	Later than one year and not later than five years	5,494
9,598	Later than five years	8,831
18,800	**Total payments**	**16,635**

17b The County Council as lessor:

Operating Leases

The County Council leases out property under operating leases for the provision of community services, such as community centres and for economic development purposes to provide suitable affordable accommodation for local businesses. The asset is retained in the Balance Sheet. Rentals receivable are credited to the relevant service area in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease and totalled £5.1 million in 2021/22 (£4.7 million in 2020/21).

The future minimum lease payments receivable under non-cancellable leases in future years are:

2020/21 £'000		2021/22 £'000
4,509	Not later than one year	5,084
11,524	Later than one year and not later than five years	12,960
53,210	Later than five years	54,529
69,243	**Total future minimum lease payments**	**72,573**

18 PFI and service concessions

PFI and similar contracts are agreements to receive services, where the PFI contractor is responsible for making available the property, plant and equipment needed to provide the services. As the County Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the

County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a deferred liability on the balance sheet for amounts due to the scheme operator to pay for the capital investment. During the life of the assets, any enhancement or replacement costs are added to the asset value and PFI liability.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the

Comprehensive Income and Expenditure Statement

- principle repayment – applied to write down the Balance Sheet liability.

18a The South Coast Street Lighting PFI

The County Council has one PFI contract which is for street lighting. This came into effect from the financial year 2010/11. The South Coast Street Lighting PFI project was procured in partnership between Hampshire County Council, Southampton City Council and West Sussex County Council together with the service provider, Tay Valley Lighting. Each council has its own separate contract to deliver individualised lighting requirements under a standard contractual framework.

The Hampshire Street Lighting PFI involved the replacement or updating of approximately 150,000 street lights, illuminated signs and bollards with the latest energy efficient equipment during the first five years of the project. The long-term contract with Tay Valley Lighting (Hampshire) will run for 25 years, from 1 April 2010, and will also provide for the ongoing maintenance of the council's street lighting network until 2034/35.

The five year Core Investment Period (CIP), commenced in 2010 and has now been delivered in full, with some 143,200 items of illuminated street furniture replaced or upgraded with modern, energy efficient equipment. The combination of modern energy efficient equipment, combined with the Mayflower remote monitoring system has enabled HCC to make energy savings of 51% over the period of the project to date. The focus for the remaining period of the contract is on maintaining and operating the new lighting to a high standard, with HCC's monitoring team verifying project delivery and operations. After March 2035 the risks relating to street lighting revert to the County Council. There are no options for contract renewal.

Following completion of the CIP, Equitix (the senior lender), in partnership with HCC, has achieved a refinancing annual gain-share of £190,450 per annum effective from April 2017. This reduction has been reflected in the future expected payments under the contract as a reduced interest charge. Other changes to the annual cost are determined by inflation and amendments to the inventory. The movement in the asset values were as follows:

2020/21 £'000	Gross book value	2021/22 £'000
127,810	At 1 April	127,810
-	Additions	-
	Disposals	-
-	Revaluations	-
127,810	Gross book value at 31 March	127,810
	Depreciation	
(28,029)	At 1 April	(32,289)
(4,260)	Depreciation for the year	(4,260)
-	Impairments	-
(32,289)	Depreciation at 31 March	(36,549)
99,781	Net book value at 1 April	95,521
95,521	**Net book value at 31 March**	**91,261**
	The movement in the deferred liability was:	
(99,894)	Balance brought forward 1 April	(95,551)
	Adjustment to opening balance (note i)	5,244
4,343	Principal repayment in the year	3,373
-	Capital expenditure incurred in the year	-
(95,551)	**Balance at 31 March**	**(86,934)**
(4,597)	Finance lease repayable in one year	(3,689)
(90,954)	deferred liability	(83,245)
(95,551)		**(86,934)**

Note i - The adjustment to opening balances relates to a recalculation of the model used to allocate the payment made between interest and principal. This has no impact on the cash payments made but means that expenditure previously recognised as interest charges has been reclassified to instead reduce the value of the outstanding liability.

The street lighting contract has 13 years to run. The expected payments are shown in the following table:

	Principal repayment £'000	Interest £'000	Contingent Rental £'000	Service Charge £'000	Total £'000
Next year	3,689	7,933	1,361	5,643	18,627
Years two to five	18,565	28,035	6,733	24,058	77,390
Years six to 10	34,870	23,718	11,590	33,321	103,498
Years 11 to 13	29,810	5,603	8,836	21,638	65,888
	86,934	**65,289**	**28,520**	**84,660**	**265,403**

A PFI grant of £9 million from the Department of Transport was received by the County Council in 2021/22 with a balance of £122 million due to be received over the remainder of the contract. This grant is expected to be applied to offset the capital and financing costs built into the annual fee.

Energy for street lighting is provided through a separate contract. Estimated costs over the remainder of the contract are expected to be £92 million.

18b Project Integra

An existing contract for waste management meets the definition of a service concession. The contract with Hampshire Waste Services Ltd (a wholly owned subsidiary of Veolia UK) is administered by the County Council on behalf of Portsmouth and Southampton unitary authorities who are joint signatories. The contract began in January 1996 and runs until 31 December 2030.

Through a side agreement (Tripartite Agreement), Southampton and Portsmouth City Councils commit to paying a proportion of the costs of the scheme, which is broadly based on the proportion of waste contributed by each of the partner Councils.

The contract has three phases. During phases 1 and 2 the contractor planned, financed and constructed the three Energy Recovery Facilities, two Material Reprocessing Facilities and two composting sites. The contract is currently in Phase 3a covering the provision of waste disposal services in relation to the constructed facilities ending in 2030. The contract price mechanism is structured with an annual re-pricing each January linked to the retail price index in the previous October. During 2015/16 a Deed of Variation to the contract was completed. This delivered savings of £2.4 million per year from 2015 and has increased to savings of £4.9 million per year from 2018.

For sites built on County Council land the contract requires their transfer to the County Council at the end of the contract. Other sites on land contributed by Portsmouth or Southampton Councils will be subject to negotiation for continued utilisation (if required), at contract end. Contractor or third party owned sites may be acquired at contract end through assignment of leases, or options to purchase as negotiated at the time.

The County Council's apportionment of the waste disposal assets, constructed under the contract, is included in the balance sheet together with a deferred liability to pay for the assets over the life of the contract

The movement in the asset values during the year were as follows:

2020/21 £'000	Gross book value	2021/22 £'000
80,469	At 1 April	80,469
-	Additions	-
-	Disposals	-
	Revaluations	
80,469	Gross book value at 31 March	80,469
	Depreciation	
(9,485)	At 1 April	(14,850)
(5,365)	Depreciation for the year	(5,365)
-	Impairments	-
	Revaluations	
(14,850)	Depreciation at 31 March	(20,215)
70,984	Net book value at 1 April	65,619
65,619	**Net book value at 31 March**	**60,254**
	The movement in the deferred liability was:	
(49,540)	Balance brought forward 1 April	(45,921)
3,619	Principal repayment in the year	3,795
(45,921)	**Balance at 31 March**	**(42,126)**
(3,795)	Finance lease repayable in one year	(3,980)
(42,126)	deferred liability	(38,146)
(45,921)	**Balance at 31 March**	**(42,126)**

The waste management contract has 9 years to run. Based on the current contract inflation rate, the expected payments are shown below.

	Principal repayment £'000	Interest £'000	Service Charge £'000	Total £'000
Next year	3,980	2,049	49,095	55,124
Years two to five	17,951	6,165	231,589	255,705
Years six to nine	20,195	2,407	300,395	322,997
	42,126	**10,621**	**581,079**	**633,826**

19 Property, plant and equipment (PPE)

Assets that have a physical substance and are held for use in the provision of services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of PPE assets is capitalised on an accruals basis. Expenditure that maintains, but does not extend, the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to the relevant service area within the Comprehensive Income and Expenditure Statement as it is incurred.

Measurement

PPE assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Operational Land and Buildings - current value, determined as the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Assets valued at under £10,000 are not recognised as they do not add to the future economic benefits or service potential of the Council.
- Surplus Land and Buildings – at fair value in highest and best use, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- Vehicles, Plant and Equipment are measured at depreciated historical cost (as this is not materially different from the current value).
- Infrastructure Assets are measured at depreciated historical cost.
- Community Assets and Assets Under-Construction are measured at historical cost.

PPE assets included in the Balance Sheet at fair value or current value (i.e. land and buildings) are re-valued where there have been material changes in the value, but as a minimum every five years. The freehold and leasehold properties of the County Council's property portfolio have been valued under a rolling programme by the County Council's property services staff. Valuations were carried out in accordance with the methodologies and bases of estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. For assets not included in the current year's valuation programme, the change in value is estimated using Building Cost Information Services (BCIS) indices.

Increases in valuations are matched by credits to the Asset Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the relevant service area within the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to the service area. The Asset Revaluation Reserve only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date form part of the Capital Adjustment Account.

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of the gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The County Council has chosen to utilise the Temporary Relief offered by the Update to the Code on infrastructure assets because:

- The County Council considers the highways network an inalienable asset, as there is no prospect of sale or alternative use, and value is only derived through its continued use.
- There are historical information deficits for a number of reasons, including various changes to accounting requirements since the 1990s reflected in updates to the CIPFA Code of Practice in addition to the impact of local government reorganisation and the associated transfer of assets.
- Infrastructure assets are measured using depreciated historical cost, with the carrying amount of any replaced or restored part of the asset assumed to be zero. The County Council has not had sufficient resources to replace assets before they have reached the end of their useful life.
- The historical information deficit coupled with the assumption that replaced assets will always have reached the end of their useful life before replacement creates issues in confirming gross book value and accumulated depreciation figures that faithfully represent these figures to users of the financial statements and therefore also in providing auditable evidence. By applying the temporary relief, the County Council does not have to disclose gross book value or accumulated depreciation figures for its infrastructure assets.
- The assumption that the carrying amount of any replaced or restored part of the asset is zero relates to the gross book value and accumulated depreciation figure for the asset. It means that any over/understatement of gross book value caused by historical information deficits would be offset by an equal and opposite amount for accumulated depreciation and therefore has no impact on the carrying amount (net book value) of the asset that is reported on the balance sheet.
- Applying the temporary relief therefore has no impact on the carrying value (net book value) shown in the balance sheet.
- The County Council therefore believes that by applying the temporary relief the numbers presented in this disclosure note provide a more faithful representation of

the asset position to users of the accounts and, as the net book value is not affected, should not adversely affect the decision making of users of the financial statements

- The carrying value of the asset on the balance sheet does not impact the County Council's decision making as it is not used to inform the capital or revenue budgets (and nor therefore the council tax requirement), nor does it impact the work of the County Council's Highways team in assessing the condition of the highways network and the amounts required to maintain and enhance the network to maintain it to the relevant safety requirements.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 (regulation 30M) states that where a local authority replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component, it may determine the relevant amount as nil and that it must include a note to that effect in its statement of accounts. This is what the County Council has done. This regulation also states that, when preparing a statement of accounts to which this regulation applies, a local authority is not required to make any prior period adjustment to the balances of that statement of accounts in respect of infrastructure assets.

Impairment

Decreases in value (due to either physical impairment or market prices) are either charged to the Asset Revaluation Reserve (to the extent that it has any balance relating to the specific asset) or to the relevant service area within the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised. However, revaluation losses and subsequent reversals are not permitted by statutory arrangements to impact on the General Fund Balance and therefore any gains or losses are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

Depreciation

Depreciation is provided for on all PPE assets with a determinable and finite life by allocating the value of the asset in the Balance Sheet over their useful lives. An exception is made for assets without finite lives (e.g. land and community assets), assets that are not yet available for use (e.g. assets under construction) and assets held for sale.

The accounting standard IAS16 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, where parts of the item are individually not significant and there are varying expectations for these parts, approximation techniques may be necessary to depreciate them in a manner that faithfully represents the consumption pattern and/or useful life of its parts. For building assets, the County Council uses a weighted average of all components rather than depreciating components separately. The difference in the depreciation calculated is not material.

Depreciation commences in the year after the year of acquisition and a full year's depreciation is charged in the year of disposal, except for vehicles disposed of in the first six months of a financial year when no depreciation is charged in the final period. Depreciation is calculated on the following basis:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer *
- Furniture and equipment – between five and 10 years
- Vehicles - between five and 10 years
- Infrastructure – 20 years
- Street lighting – 30 years

* The useful life of a building is the weighted average of all its components. Where material, replaced components are derecognised by disposing of their gross book value and accumulated depreciation.

Depreciation is charged to the relevant revenue service area within the Comprehensive Income and Expenditure Statement. However, depreciation charges are not permitted by statutory arrangements to have an impact on the General Fund Balance and therefore all depreciation charges are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

Where assets have been re-valued, the revaluation gains held in the Asset Revaluation Reserve are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged, based on their historic cost, being transferred each year from the Asset Revaluation Reserve to the Capital Adjustment Account.

Disposals and assets held for sale

When a material PPE asset is to be disposed of, and meets all of the criteria of an asset held for sale, it is reclassified as Assets Held for Sale. If the carrying amount at the time of reclassification is higher than the fair value less costs to sell the asset, then the asset held for sale will be impaired. This impairment is charged to other costs in the Comprehensive Income and Expenditure Statement. Assets that are being abandoned, scrapped or have fully depreciated are written out without being reclassified.

When the asset is disposed of, decommissioned, the carrying value of the asset is written out to the Other Operating Income and Expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement. Any revaluation gains accumulated for the asset in the Asset Revaluation Reserve are written out to the Capital Adjustment Account by way of a transfer between the accounts.

Amounts received in excess of £10,000 are categorised as capital receipts and are credited to the other operating expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. They are then appropriated to the Capital Receipts Reserve from the General Fund Balance within the Movement in Reserves Statement and then can only be used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the capital financing requirement).

School Assets

The County Council has foundation, voluntary aided schools (VA schools) and voluntary controlled schools (VC schools). The County Council owns some of the assets in relation to these schools but some of the assets are owned and controlled by another party (e.g. the diocese). The County Council recognises the value of the assets it owns in relation to VA schools in the Balance Sheet. All assets of Foundation and VC schools are recognised by the County Council, even those it does not own, as the County Council controls the service and economic potential of these assets. The property, plant and equipment assets of foundation trust schools are controlled by the Trust and are not included in the County Council's Balance Sheet.

Details on the different types of schools in Hampshire can be found on the government website: https://get-information-schools.service.gov.uk/

Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture. The principal heritage assets owned by the County Council are its museum collections, archives collection and a small number of historic buildings and archaeological sites. Since 1 November 2014, the County Council's museum collection is managed by the Hampshire Cultural Trust

It is the County Council's opinion that due to the size and variety of the museum and archives collection and the fact that many of the items are unique and irreplaceable, it is not possible to obtain a fair value at a cost commensurate to the benefit derived by the users of the accounts. The historical cost of buildings and archaeological sites, where known, is not material. Therefore, asset values are not included in the balance sheet, but details of heritage assets are given in the notes to the accounts.

The County Council also owns a number of operational heritage assets that, in addition for being held for their contribution to knowledge and culture, are also used for other activities or to provide other services. Operational heritage assets are accounted for as operational assets and valued in the same way as other assets of that type.

Detailed information about the County Council's Heritage assets can be found on the Hampshire Cultural Trust and Hampshire Archives websites:

https://hampshireculturaltrust.org.uk/

https://www.hants.gov.uk/librariesandarchives/archives

Intangible assets

Intangible assets are assets which bring benefits for more than one year, are identifiable and controlled by the County Council, but lack physical substance. Typical examples include software licences, and websites developed to deliver services rather than information about services. The County Council does not have any material intangible assets.

Property, Plant and Equipment (PPE)

The movements in property plant and equipment during 2021/22 were as follows:

Cost or valuation	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Community Assets	Assets under construction	Surplus Assets	Total Property, Plant and Equipment	PFI Assets included in Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2021	**3,739,053**	**86,489**	**16,676**	**83,498**	**22,887**	**3,948,603**	**208,279**
Additions in year	51,909	4,067	259	87,470		**143,705**	0
Donations	0	0	0	0	0	**0**	**0**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	17,622	0	0	0	(3,056)	**14,566**	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(20,910)	0	0	0	(2,336)	**(23,246)**	0
Derecognition - Disposals	(9,233)	(15,450)	0	0	(3,149)	**(27,832)**	0
Derecognition - Other	(12,039)	(110)	0	0	0	**(12,149)**	0
Assets reclassified to held for sale	(4,530)	0	0	0	0	**(4,530)**	0
Other movements in cost or valuation	32,818	0	0	(43,089)	(333)	**(10,604)**	0
At 31 March 2022	**3,794,690**	**74,996**	**16,935**	**127,879**	**14,013**	**4,028,513**	**208,279**
Accumulated depreciation and Impairment							
At 31 March 2021	**(386,870)**	**(40,397)**	**(242)**	**0**	**(4,033)**	**(431,542)**	**(47,139)**
Depreciation Charge	(92,226)	(9,387)	0	0	(282)	**(101,895)**	(9,625)
Depreciation written out on revaluation	100,103	0	0	0	2,998	**103,101**	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	415	0	0	0	0	**415**	0
Impairment losses recognised in the Revaluation Reserve	(21,242)	0	0	0	(408)	**(21,650)**	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(14,030)	0	0	0	(2,079)	**(16,109)**	0
Derecognition - Disposals	4,762	12,342	0	0	2,549	**19,653**	0
Derecognition - Other	2,760	53	0	0	0	**2,813**	0
Assets reclassified to held for sale	150	0	0	0	0	**150**	0
Other movements in depreciation and impairment	66	0	0	0	(57)	**9**	0
At 31 March 2022	**(406,112)**	**(37,389)**	**(242)**	**0**	**(1,312)**	**(445,055)**	**(56,764)**
Net Book Value							
At 31 March 2022	**3,388,578**	**37,607**	**16,693**	**127,879**	**12,701**	**3,583,458**	**151,515**

Highways Network Infrastructure Assets

Movement on balances	2020/21	2021/22
	£'000	£'000
Net Book Value (Modified Historical Cost) at 1 April	**896,533**	**916,219**
Additions	63,110	67,479
Derecognition	0	0
Depreciation	(52,841)	(56,468)
Impairment	0	0
Other movements in cost	9,417	10,478
Net Book Value as at 31 March	**916,219**	**937,708**

Reconciling note to the PPE value shown on the Balance Sheet

	31 March 2021	31 March 2022
	£'000	£'000
Highways Network Infrastructure assets	916,219	937,708
Other PPE	3,517,061	3,583,458
Total PPE	**4,433,280**	**4,521,166**

The comparative movements in PPE during 2020/21 were as follows:

Cost or valuation	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets	Total Property, Plant and Equipment	PFI Assets included in Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2020	3,860,927	87,601	1,361,505	16,187	40,464	21,886	5,388,570	208,279
Adjustment to opening balance (i)	(78,497)	0	0	0	0	0	(78,497)	0
Revised value as at 31 March 2020	3,782,430	87,601	1,361,505	16,187	40,464	21,886	5,310,073	208,279
Additions in year	14,066	6,286	63,110	489	65,710	12	149,673	0
Donations	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(28,035)	0	0	0	0	546	(27,489)	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(26,953)	0	0	0	0	(586)	(27,539)	0
Derecognition - Disposals	(1,034)	(7,309)	0	0	0	(286)	(8,629)	0
Derecognition - Other	(14,935)	(89)	0	0	0	0	(15,024)	
Assets reclassified to held for sale	(300)	0	0	0	0	0	(300)	0
Other movements in cost or valuation	13,814	0	9,417	0	(22,676)	1,315	1,870	0
At 31 March 2021	3,739,053	86,489	1,434,032	16,676	83,498	22,887	5,382,635	208,279
Accumulated depreciation and Impairment								
At 31 March 2020	(448,113)	(38,242)	(464,972)	(242)	0	(4,257)	(955,826)	(37,514)
Adjustment to opening balance (i)	78,497	0	0	0	0	0	78,497	0
Revised value as at 31 March 2020	(369,616)	(38,242)	(464,972)	(242)	0	(4,257)	(877,329)	(37,514)
Depreciation Charge	(94,402)	(9,521)	(52,841)	0	0	(184)	(156,948)	(9,625)
Depreciation written out on revaluation	97,685	0	0	0	0	804	98,489	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	5,839	0	0	0	0	86	5,925	0
Impairment losses recognised in the Revaluation Reserve	(15,379)	0	0	0	0	0	(15,379)	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(12,787)	0	0	0	0	0	(12,787)	0
Derecognition - Disposals	212	7,302	0	0	0	37	7,551	0
Derecognition - Other	1,628	64	0	0	0	0	1,692	0
Assets reclassified to held for sale	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	(50)	0	0	0	0	(519)	(569)	0
At 31 March 2021	(386,870)	(40,397)	(517,813)	(242)	0	(4,033)	(949,355)	(47,139)
Net Book Value								
At 31 March 2021	3,352,183	46,092	916,219	16,434	83,498	18,854	4,433,280	161,140

note i) The adjustment to 2020 opening balances is a restatement of £78.497m identified as part of the 2021/22 audit and relates to the removal of assets with a nil Net Book Value that had been transferred to academy schools upon their conversion to academy status but were incorrectly retained on the balance sheet of Hampshire County Council. The adjustment relates to the period prior to 2017/18 and has no impact on the NBV of the assets or any other sections of the accounts.

19a Capital commitments

Commitments for major contracts entered into up to 31 March 2022 are estimated at £28.2 million (£58.1 million in 2020/21). This includes £18.0 million (£29.6 million in 2020/21) for highways and £9.9 million (£25.6 million in 2020/21) for buildings.

20 Investment properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between separate and knowledgeable parties. Further information on asset valuations is included in note 30.
Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The same treatment is applied to gains and losses on disposal.

Material rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The following table summarises the movement in the fair value of investment properties over the year:

2020/21 £'000		2021/22 £'000
100,831	Balance at start of the year	105,147
	Additions:	
0	- purchases	0
0	- construction	0
2	- subsequent expenditure	0
(73)	Disposals	(9,180)
5,688	Net gains/(losses) from fair value adjustments	49,218
	Transfers:	
(1,301)	- (to)/from Property, Plant and Equipment	117
105,147	**Balance at end of the year**	**145,302**

There are no restrictions on the County Council's ability to realise the value inherent in its investment property or on the County Council's right to the remittance of income and the proceeds of disposal. The County Council has no contractual obligations to purchase, construct or develop investment property or to carry out repairs, maintenance or enhancement.

21 Valuation of non-financial assets carried at fair value

Fair Value Hierarchy

Information about the fair value hierarchy levels for investment and surplus properties are as follows:

Values at 31 March 2022	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	significant unobservable inputs Level 3 £'000	Total £'000
Investment Assets	65	141,730	3,507	145,302
Surplus Assets		12,250	451	12,701
Total	**65**	**153,980**	**3,958**	**158,003**

Valuation Techniques used to Determine Level 2 and 3 Fair Values

Significant Observable Inputs - Level 2
The fair value for the properties within level 2 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Significant Unobservable Inputs - Level 3
The fair value for the properties within level 3 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets, but with a level of valuer judgement as the recent sales prices and other relevant information are not as significant as with Level 2. This results in more significant unobservable inputs being used in order to determine the fair value.
The assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

22 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants do not give rise to financial instruments. Financial instruments are recognised in the Balance Sheet when the authority becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets are classified into one of three categories dependent on both:

- the reason the authority is holding the asset (e.g. to collect the contractual cash flows until maturity and / or to sell before maturity); and
- the nature of the asset’s contractual cash flows (e.g. just principal and interest or something more complicated).

The classification categories are set out in the following table:

Reason for holding the asset	Nature of the contractual cash flows	Classification category
Holding assets in order to collect contractual cashflows	Solely payments of principal and interest	Amortised Cost
Holding assets in order to collect contractual cashflows as well as selling the assets	Solely payments of principal and interest	Fair value through other comprehensive income
Holding assets that do not fall into either of the above categories	Not solely payments of principal and interest	Fair value through profit and loss

All financial assets are initially measured at fair value and recognised on the balance sheet. How the financial assets are subsequently measured, and how unrealised gains or losses are shown in the accounts is dependent on what category the asset has been classified as.

Classification category	Subsequent measurement basis	Presentation of unrealised gains & losses
Amortised Cost	Amortised Cost	A disclosure note
Fair Value through Other Comprehensive Income (FVOCI)	Fair Value	The 'Other comprehensive income' section of the Comprehensive Income & Expenditure Statement (CIES)
Fair Value through Profit & Loss (FVPL)	Fair Value	The 'Financing and investment income & expenditure' section of the CIES.

A financial asset is derecognised from the Balance Sheet when the contractual rights to the cash flows expire, or the financial asset is transferred.

Interest or dividends are credited to the Financing and Investment Income and Expenditure line in the CIES. Dividends are credited when they become receivable by the authority. Interest income is credited based on the amortised cost of the asset multiplied by its effective interest rate.

Financial liabilities

All financial liabilities are classified as subsequently measured at amortised cost. This means they are initially measured at fair value before subsequently being measured at amortised cost. The amount presented in the Balance Sheet is therefore the outstanding principal repayable (plus accrued interest);

Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. The amount payable each year therefore matches to the loan agreement.

Impairment of Financial Instruments – Expected Credit Loss (ECL) model

At each reporting date, using reasonable and supportable forward-looking information that is available without undue cost or effort, an authority shall assess whether the risk of default occurring over the life of the financial instrument has increased significantly since it was initially recognised.

The basis of this assessment determines the ECL that is then charged to the 'Financing and investment income & expenditure' section of the CIES:

Risk of default has increased significantly	ECL equal to the anticipated loss over the lifetime of the financial instrument
Risk of default has not increased significantly	ECL equal to the anticipated loss over the next 12 month period

A simplified approach for calculating the ECL can be used for trade receivables, contract assets and lease receivables that do not contain a significant financing component.

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long term		Current		
	31 March 2021	31 March 2022	31 March 2021	31 March 2022	see
Financial assets:	**£'000**	**£'000**	**£'000**	**£'000**	*note*
Investments:					
At amortised cost					
- Principal	76,680	37,451	184,673	429,440	
- Accrued interest	84	256	1,120	1,047	
- Loss Allowance	(8)	(4)	(15)	(18)	
At Fair Value through Other Comprehensive Income (FVOCI)					
- Principal at amortised cost					
- Accrued interest					
- Fair value adjustment					
- Equity investments elected FVOCI					
At Fair Value through profit & loss					
- Fair value	182,857	199,236	10,017	9,867	
Total investments	**259,613**	**236,939**	**195,795**	**440,336**	
Cash & cash equivalents:					
- Cash (including bank accounts)			(24,341)	(23,632)	
- At amortised cost			34,489	1,010	
- At Fair Value through Profit & Loss			77,980	21,420	
Total cash and cash equivalents			**88,128**	**(1,202)**	
Loans & receivables - Debtors	26,994	20,793	77,883	123,790	
Total debtors	**26,994**	**20,793**	**77,883**	**123,790**	
Total Financial Instrument Assets	**286,607**	**257,732**	**361,806**	**562,924**	
Financial liabilities at amortised cost:					
Borrowing	(249,293)	(241,183)	(51,323)	(53,821)	*22d*
Developers' contributions	(132,810)	(147,411)	-	-	*22f*
Creditors and receipts in advance	-	-	(135,617)	(145,382)	*22g*
PFI & finance lease liabilities	(133,080)	(121,391)	(8,392)	(7,669)	*18*
Financial liabilities at amortised cost	**(515,183)**	**(509,985)**	**(195,332)**	**(206,872)**	

22a Cash and cash equivalents

Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

31 March 2021 £'000		31 March 2022 £'000
324	Cash in hand	450
34,489	Cash equivalents measured at amortised cost	1,010
77,980	Cash equivalents measured at fair value through profit & loss	21,420
(24,665)	Bank overdraft	(24,082)
88,128		**(1,202)**

22b Long-term debtors

31 March 2021 £'000		31 March 2022 £'000
	Financial instrument debtors	
501	Car loans to staff	376
26,493	Other (principally loans granted by the EM3 Local Enterprise Partnership)	20,417
26,994		**20,793**
	Non-financial instrument debtors	
26,757	Transferred debt	26,776
74,222	Prepayment of employer pension contributions	0
127,973		**47,569**

Transferred debt represents amounts of capital advances due to be repaid after statutory transfers of former services to Portsmouth and Southampton Unitary Authorities. These are not financial instruments and are shown at the book value of the amount outstanding.

Prepayments relate to advanced payment of employer pension contributions to the Local Government Pension Scheme (LGPS) permissible within the LGPS Regulations. These pre-payments are classified as non-financial instruments and will be written down in the year to which the contribution relates.

By value, the majority of these loans are for a period of less than five years. Their amortised cost in the Balance Sheet is a reasonable assessment of fair value. All loans are expected to be repaid in full, so a reduction for impairment is not considered necessary.

22c Short-term debtors

Debtors are shown net of the expected loss allowance for receivables detailed below.

31 March 2021 £'000		31 March 2022 £'000
77,883	Financial instrument debtors	123,790
148,942	Non-financial instrument debtors	160,485
226,825	**Total debtors and prepayments**	**284,275**

22d Borrowing

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Long term			Short term	
31 March 2021 £'000	31 March 2022 £'000		31 March 2021 £'000	31 March 2022 £'000
		Loans at amortised cost:		
(208,000)	(200,000)	-Public Works Loan Board (PWLB)	(10,432)	(9,886)
(41,293)	(41,183)	-Market loans	(562)	(553)
		-Other short-term borrowing	(40,329)	(43,382)
(249,293)	**(241,183)**		**(51,323)**	**(53,821)**

22e Fair values

Fair Value Measurement

The County Council measures some of its assets and liabilities at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The County Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

When measuring the fair value of a non-financial asset, the County Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All financial instruments excluding those classified at amortised cost are carried in the Balance Sheet at fair value. For money market funds and pooled funds, the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2020, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.

- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.

- No early repayment or impairment is recognised for any financial instrument.

- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the following tables, split by their level in the fair value hierarchy.

Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities e.g. bond prices

Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

2020/21				2021/22	
Balance Sheet	Fair Value		Fair Value	Balance Sheet	Fair Value
£'000	£'000	**Financial Assets held at fair value:**	Level	£'000	£'000
77,980	77,980	Money market funds	1	21,420	21,420
116,145	116,145	Equity, bond and multi-asset funds	1	120,780	120,780
76,729	76,729	Property funds - (note i)	2	88,323	88,323
0	0	Corporate & government bonds	1	0	0
270,854	**270,854**	**Total**		**230,523**	**230,523**
		Financial Assets held at amortised cost:			
20,018	20,094	Corporate & government bonds	1	10,018	10,036
1,738	2,472	Long-term company loans	3	14,280	16,367
55,000	60,889	Long-term loans to local authorities & housing associations	2	31,155	29,998
76,756	**83,455**	**Total**		**55,453**	**56,401**
300,803		Assets for which fair value is not disclosed - (note ii)		534,680	
648,413	**354,309**	**Total financial instrument assets**		**820,656**	**286,924**
		Recorded on balance sheet as:			
259,613		Long-term investments		236,939	
26,994		Long-term debtors		20,793	
195,795		Short-term investments		440,336	
77,883		Short-term debtors		123,790	
88,128		Cash and cash equivalents		(1,202)	
648,413		**Total financial instrument assets**		**820,656**	

note i- Property funds totalling £88.3m have been moved from level 1 to level 2 of the hierarchy for 2021/22.

note ii - The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is lower than their balance sheet carrying amount because the interest rate on similar investments is now higher than that obtained when the investment was originally made.

2020/21 Balance sheet £'000	2020/21 Fair Value £'000	Financial Liabilities	Fair Value Level	2021/22 Balance sheet £'000	2021/22 Fair Value £'000
(216,500)	(276,321)	PWLB loans - principal	2	(208,000)	(241,349)
(1,933)		PWLB loans - interest		(1,886)	
(41,293)	(54,860)	Market loans - principal	2	(41,183)	(49,234)
(562)		Market loans - interest		(553)	
(141,472)	(183,979)	PFI arrangements (deferred liability)	2	(129,060)	(174,908)
(401,760)	**(515,160)**	**Total**		**(380,682)**	**(465,491)**
(308,803)		Liabilities for which fair value is not disclosed (note i)		(336,175)	
(710,563)		**Total financial instrument liabilities**		**(716,857)**	
		Recorded on balance sheet as:			
(135,617)		Short-term creditors		(145,382)	
(51,323)		Short-term borrowing		(53,821)	
(8,392)		Deferred liability repayable within one year		(7,669)	
(249,293)		Long-term borrowing		(241,183)	
(133,080)		Deferred liabilities		(121,391)	
(132,810)		Developers' contributions		(147,411)	
(710,515)		**Total financial instrument liabilities**		**(716,857)**	

note i - The fair value of short-term financial liabilities including trade payables and developers contributions is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

22f Developers' contributions

Developers' contributions arise mainly as a result of agreements under Section 106 of the Town and Country Planning Act 1990 and also Section 278 of the Highways Act 1980 if a development derives special benefit from highway works, developers can be required to contribute towards the costs. Before being applied, deposits are credited with interest on the basis of market rates. Therefore, the carrying amount is a reasonable assessment of the fair value of the financial liability

2020/21				2021/22		
Highways £'000	Other £'000	Total £'000		Highways £'000	Other £'000	Total £'000
(89,266)	(36,259)	(125,525)	Balance at 1 April	(96,276)	(36,534)	(132,810)
(12,889)	(24,058)	(36,947)	Income	(17,629)	(33,694)	(51,323)
5,879	23,783	29,662	Contributions applied	12,813	23,909	36,722
(96,276)	**(36,534)**	**(132,810)**	**Balance at 31 March**	**(101,092)**	**(46,319)**	**(147,411)**

22g Short-term creditors

Short-term creditors includes deposits, creditors and receipts in advance as detailed below:

31 March 2021 £'000		31 March 2022 £'000
(135,665)	Financial instrument creditors	(145,382)
(79,933)	Non-financial instrument creditors	(62,373)
(215,598)	**Total short term creditors**	**(207,755)**

22h Nature and extent of risks arising from financial instruments

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance on Local Authorities, both revised in 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. Revenue budget report appendix 10 Treasury Management Strategy

The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local

Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

Credit risk: The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the County Council.

Liquidity risk: The possibility that the County Council might not have the cash available to make contracted payments on time.

Market risk: The possibility financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit risk

The County Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy

The table below summarises the credit risk exposures of the County Council's investment portfolio by the type of counterparty:

	Long term		**Short term**	
Credit Rating	**31 March 2021 £'000**	**31 March 2022 £'000**	**31 March 2021 £'000**	**31 March 2022 £'000**
AAA	20,018	10,018	10,669	103,908
AA+	-	-	-	-
AA	-	-	-	-
AA-	-		-	41,019
A+	-	-	-	27,055
A	-	-	69,500	55,005
A-	-	-		
AAA Money market funds	-	-	77,980	21,420
Unrated local authorities	55,000	25,000	140,095	204,486
Unrated companies	1,738	2,685	3	6
Unrated pooled funds	182,857	199,236	10,017	9,867
Total	**259,613**	**236,939**	**308,264**	**462,766**

Invoiced debtors risk

The invoiced debtors have been reviewed by age to determine an appropriate allowance for debts that are likely to be uncollectable. This excludes debts of £9.5 million considered to be low risk as they were either paid in early 2020/21, secured on property or have agreed repayment plans.

An expected loss allowance (ELA) of £13.8 million (£11.7 million in 2020/21) has been calculated.

Outstanding debt raised in	Outstanding balance due at 31 March 2022 £'000	Individually assessed impairment £'000	Collectively assessed impairment £'000	Total Expected Loss Allowance for receivables £'000
2021/22		369	946	1,315
2020/21	28,830	1,025	1,465	2,490
2019/20	7,535	337	2,679	3,016
2018/19	3,590	124	1,556	1,680
2017/18 and earlier	9,243	964	4,358	5,322
	49,198	**2,819**	**11,004**	**13,823**

Liquidity risk

The County Council has ready access to borrowing from the Public Works Loan Board, other local authorities, and from banks and building societies. There is no perceived risk that the County Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the County Council's borrowing that matures in any one financial year.

The maturity analysis of the principal sums borrowed at 31 March 2022 was as follows:

Discounted (principal) 31 March 2021 £'000	Undiscounted (principal plus interest) 31 March 2021 £'000		Discounted (principal) 31 March 2022 £'000	Undiscounted (principal plus interest) 31 March 2022 £'000
(8,610)	(20,612)	Not over one year	(8,110)	(19,578)
(8,110)	(19,572)	Between one and two years	(8,080)	(19,217)
(27,074)	(59,003)	Between two and five years	(29,003)	(59,468)
(55,000)	(97,589)	Between five and 10 years	(59,000)	(98,899)
(135,000)	(169,528)	Between 10 and 20 years	(127,000)	(155,556)
(24,000)	(26,284)	Between 20 and 40 years	(18,000)	(19,264)
		Over 40 years		
(257,793)	**(392,588)**	**Total**	**(249,193)**	**(371,982)**

Market risk

Interest rate risk

The County Council is exposed to risks arising from interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the County Council. For instance a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest rate expense will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income will rise

- investments as fixed rates – the fair value of the assets will fall

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will

be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2022, £229 million of principal borrowed was at fixed rates and £20 million at variable rates. The value of the County Councils investments (excluding accrued interest) held at variable rates (including investments with less than one year to maturity) was £657 million at 31 March 2022 and fixed rates was £25 million.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

Interest rate risk	**£'000**
Increase in interest payable on variable rate borrowing	131
Increase in interest receivable on variable rate investments	(3,533)
Decrease in fair value of investments held at FVPL	991
Impact on (Surplus) or Deficit on the Provision of Services	**(2,411)**
Decrease in fair value of investments held at FVOCI	
Impact on Comprehensive Income and Expenditure	**(2,411)**

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price risk

The market prices of the County Council's fixed rate bond investments are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The County Council's investment in pooled property funds are subject to the risk of falling commercial property prices and its investment in pooled equity funds are subject to the risk of falling share prices. These risks are limited by the County Council's investment strategy. A fall in commercial property or share prices would result in a charge to the surplus or deficit on the Provision of Services which is then transferred to the Financial Instrument Adjustment Account – this would have no impact on the General Fund until the investment was sold.

Foreign exchange risk

The County Council has no financial assets or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

23 Provisions

Provisions are liabilities of uncertain timing or amount. Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the County Council has a present obligation (legal or constructive), and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that payments will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Comprehensive Income and Expenditure Statement.

Change in provisions

	note	31 March 2021 £'000	Use of Provision In Year £'000	Increase or decrease in 2020/21 Central Provision £'000	Service Provision £'000	Taxation Provision £'000	31 March 2022 £'000
Insurance claims	a	(17,128)	5,489	4,095	(7,016)	0	(14,560)
Business rates appeals	b	(6,059)	0	0	0	591	(5,468)
Other	c	(526)	71	0	(36)	0	(491)
Total Provisions		**(23,713)**	**5,560**	**4,095**	**(7,052)**	**591**	**(20,519)**

a. The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2022. The risks covered from the provision are as follows:

Liabilities

Employer's liability, public liability, product liability and pollution liability – the maximum liability for any one claim being £5 million. The maximum amount for which the provision is liable (the commercial insurance aggregate) is £12.5 million in any one year.

Property

Reinstatement of buildings for loss or damage as a result of fire, lightning, explosion and (for schools only) major storm and flood. This applies to buildings owned by the Council and those leased to it where the lease allows.

Contents owned by the Council for loss or damage as a result of fire, lightning, explosion and theft.

Additional cover

Personal accident scheme
Fidelity guarantee

Schools - balance of perils
Schools – community use

b. This is the County Council's share of the provision made by billing authorities for refunding ratepayers who are successful in appealing against the rateable value of their properties on the rating list. This includes amounts relating to non-domestic rates charged to businesses in 2012/13 and earlier financial years.

c. This provision covers other liabilities, including that relating to the estimated redundancy costs following agreed service restructuring and estimated restoration costs anticipated at the end of property leases.

24 Post-employment benefits

As part of the terms and conditions of employment of its staff, the County Council makes contributions towards the cost of post-employment benefits. These will be paid only when employees retire but in accordance with IAS19 the County Council must account for the commitments at the time that employees earn their future entitlement.

The Council participates in three pension schemes:

a) Pension schemes accounted for as defined contribution schemes:
    - The Teachers Pension Scheme
    - The NHS Pension Scheme
b) The Local Government Pension Scheme (LGPS)

24a Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

This is a defined benefit scheme administered by the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the County Council's only obligation is to pay contributions towards these costs based on a percentage of member's pensionable salaries. The scheme is unfunded so the pensions of past employees are paid from current revenues. The DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. As such the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes, and therefore this scheme is accounted for as if it is a defined contribution scheme and no liability for future payment of benefits is recognised in the Balance Sheet.

The Schools line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

In 2021/22 total employer's contributions were £72 million representing 23.83% of pensionable pay (£70 million representing 23.86% of pensionable pay in 2020/21).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 24c.

NHS Pension Scheme

On 1 April 2013, Public Health staff transferred from the NHS to the County Council. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the County Council's only obligation is to pay contributions towards these costs based on a percentage of member's pensionable salaries.
The scheme is an unfunded defined benefit scheme administered by EA Finance NHS Pensions. As such the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes and therefore this scheme is accounted for as if it is a defined contribution scheme and no liability for future payment of benefits is recognised in the Balance Sheet.

The Adults' Health and Care line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year. In 2021/22 total employer's contributions were £0.05 million.

24b Local Government Pension Scheme

Participation in Pension Schemes

The County Council participates in and administers the Hampshire LGPS. This is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits earned after 31 March 2014 are based on a Career Average Revalued Earnings. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'. This disclosure includes an estimate of the impact of the anticipated changes to scheme regulations that will be made to remove age discrimination as a result of the McCloud and Sargeant legal cases.

The funded nature of the LGPS requires that Hampshire County Council and employees pay contributions into the Fund, calculated at a level intended to balance the Fund's liabilities with its investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement.

The LGPS is accounted for as a defined benefits scheme where:

- The liabilities of the scheme attributable to the County Council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees).

- Liabilities are discounted to their value at current prices using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.

- The assets of the pension fund attributable to the County Council are included in the Balance Sheet at their fair value: for quoted securities this means the current bid price; for unquoted securities this is based on a professional estimate; for unitised securities this means the current bid price; for property this means an estimate of the market value.

As at March 2022, Pension Fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation at 31 March 2019. As part of the 2019 valuation, employer contribution rates were set for a three year period.

Statutory provisions limit the County Council to raising council tax to cover the actual amounts payable by the County Council to the pension fund in the year. In the Movement in Reserves Statement an appropriation is made between the General Fund and the Pension Fund Reserve to remove the notional debits and credits for retirement benefits included in the Comprehensive Income and Expenditure Statement and replace them with debits for the actual amounts paid to the pension fund and any amounts due to the fund but unpaid at the year-end.

Discretionary benefits

The County Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. These are not funded by the assets of the Pension Fund but by the County Council when they are paid. Any liabilities estimated to arise as a result of a discretionary award are accrued for in the year of the decision to make the award and accounted for using the same policies as are applied to the LGPS.

24c Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The change in the net pension liability is analysed into the following components:

- **Current service cost:** this is the increase in liabilities resulting from employee service in the current period. This is shown as a cost in the Comprehensive Income and Expenditure Statement for the service where the employee worked.
- **Past service cost:** this is the increase in liabilities arising from current year decisions whose effect relates to the number of years of service earned in earlier years. This is shown in other costs in the Comprehensive Income and Expenditure Statement.
- **Gains/losses on settlements and curtailments:** this is the result of members of the scheme leaving, joining or stopping their contributions to the scheme. These actions relieve the County Council of liabilities or reduce the expected future service or accrual of benefits of employees. This is shown in other costs in the Comprehensive Income and Expenditure Statement
- **Net interest on the net defined benefit liability:** this is the change during the period in the net defined benefit liability that arises from the passage of time. This is charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
- **Re-measurement comprising:**

    1. The return on assets - excluding amounts included in net interest on the net defined benefit liability – charged as Other Comprehensive Income and Expenditure.

    2. Actuarial gains and losses: these are changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are shown as other income and expenditure within the Comprehensive Income and Expenditure Statement.
- **Contributions paid to the Hampshire County Council pension fund:** these are amounts paid as employer contributions to the pension fund and are not included within the cost of services.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2020/21 £'000		2021/22 £'000
	Included in the Comprehensive Income and Expenditure Statement:	
	Cost of Services	
165,850	Current service cost of funded LGPS pensions	234,190
2,333	Past service cost of funded LGPS pensions	1,401
	Charge to non-distributed costs for early retirement in the year	
0	Settlement costs	0
0	Net increase in liabilities from acquisitions	0
	Financing and Investment Income and Expenditure	
33,587	Interest on net defined liability	37,784
201,770	**Total post employment benefits charges to the surplus/deficit on the provision of services**	**273,375**
	Remeasurements in Other Comprehensive Income:	
(595,596)	Return on plan assets (excluding that recognised in net interest)	(231,842)
	Actuarial (gains)/losses arising:-	
869,108	Actuarial (gains) / losses due to change in financial assumptions	(334,331)
0	Actuarial (gains) / losses due to change in demographic assumptions	(93,808)
(49,951)	Actuarial (gains) / losses due to liability experience	(110,013)
223,561	**Total amount recognised in Other Comprehensive Income and Expenditure**	**(769,994)**
425,331	Total post employment benefits charges to the Comprehensive Income and Expenditure Statement	**(496,619)**

	Movement in reserves statement	
(201,770)	Reversal of net changes made to the surplus/deficit for the provision of services for post employment benefits in accordance with IAS19	(273,375)
	Actual amount charged against the General Fund Balance for pensions in the year	
79,795	Employer's contributions payable to the fund	82,092
	Added years and early retirement cash flows in the year:	
1,812	- LGPS	1,747
2,548	- Teachers	2,462
84,155	Charge on General Fund	**86,301**

24d Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Period ended 31 March 2022	**LGPS funded £'000**	**LGPS Unfunded £'000**	**Teachers' Unfunded £'000**	**Total £'000**
Opening present value of liabilities	(5,064,644)	(22,142)	(31,537)	**(5,118,323)**
Current service cost	(234,190)	0	0	**(234,190)**
Interest expense on defined benefit obligation	(105,499)	(447)	(637)	**(106,583)**
Contributions by participants	(29,888)	0	0	**(29,888)**
Actuarial gains/(losses) on liabilities:				
- financial assumptions	333,214	483	634	**334,331**
- demographic assumptions	92,911	357	540	**93,808**
- liability experience	110,210	(81)	(116)	**110,013**
Net benefits paid out (note i)	113,132	1,747	2,462	**117,341**
Past service cost	(1,401)	0	0	**(1,401)**
Net increase in liabilities from acquisitions	0	0	0	**0**
Closing present value of liabilities	(4,786,155)	(20,083)	(28,654)	**(4,834,892)**

Period ended 31 March 2021	**LGPS funded £'000**	**LGPS Unfunded £'000**	**Teachers' Unfunded £'000**	**Total £'000**
Opening present value of liabilities	(4,061,501)	(22,253)	(31,823)	**(4,115,577)**
Current service cost	(165,850)	0	0	**(165,850)**
Interest expense on defined benefit obligation	(92,607)	(491)	(703)	**(93,801)**
Contributions by participants	(28,988)	0	0	**(28,988)**
Actuarial gains/(losses) on liabilities:				
- financial asssumptions	(865,589)	(1,518)	(2,000)	**(869,107)**
- demographic assumptions	0	0	0	**0**
- liability experience	49,202	308	441	**49,951**
Net benefits paid out (note i)	103,022	1,812	2,548	**107,382**
Past service cost	(2,333)	0	0	**(2,333)**
Net increase in liabilities from acquisitions	0	0	0	**0**
Closing present value of liabilities	(5,064,644)	(22,142)	(31,537)	**(5,118,323)**

24e Reconciliation of the Movements in the Fair Value of Scheme Assets

31 March 2021 £'000		31 March 2022 £'000
2,614,465	**Opening fair value of assets**	**3,276,036**
60,214	Interest income on assets	68,799
595,596	Remeasurement gains/(losses) on assets	231,842
84,155	Contributions by employer	86,301
28,988	Contributions by participants	29,888
(107,382)	Net benefits paid out (note i)	(117,341)
3,276,036	**Closing fair value of assets**	**3,575,525**

note i - Consists of net cash flow out of the Fund in respect of the employer, excluding contributions and any death-in-service lump sums paid, and including an approximate allowance for the expected cost of death-in-service lump sums.

24f Pensions Assets and Liabilities Recognised in the Balance Sheet

The share of the assets and liabilities of the Hampshire LGPS attributable to the County Council has been assessed by the Pension Fund's actuary, along with the unfunded benefits of LGPS members and teachers. The actuary estimated that the following overall assets and liabilities for pension costs should be included in the balance sheet.

31 March 2021 £'000		31 March 2022 £'000
	Present value of the defined benefit obligation:	
(5,064,644)	LGPS funded	(4,786,155)
	Unfunded Liabilities:	
(22,142)	LGPS	(20,083)
(31,537)	Teachers	(28,654)
(5,118,323)		**(4,834,892)**
3,276,036	Fair value of assets in the scheme	3,575,525
(1,842,287)	**Net liability arising from defined benefit obligation**	**(1,259,367)**

The liabilities show the underlying long-term commitments that the authority has to pay post employment (retirement) benefits. The net deficit reduces the net worth of the authority as recorded on the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the Fund's actuary.
- finance is only required to be raised to cover discretionary (unfunded) benefits when the pensions are actually paid.

The proportion of assets by category is shown below:

31 March 2021 %		31 March 2022 Quoted %	31 March 2022 Unquoted %	31 March 2022 Total %
57.0	Equities	45.8	11.1	56.9
17.3	Government bonds	17.2	0.0	17.2
6.1	Property	0.9	6.0	6.9
0.0	Corporate bonds	0.0	0.0	0.0
0.0	Multi Asset Credit	9.0	0.0	9.0
1.4	Cash	0.9	0.0	0.9
18.2	Other (hedge funds, currency holdings, futures, private equities)	5.6	3.5	9.1
100.0		**79.4**	**20.6**	**100.0**

24g Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels etc.

The significant assumptions used by the actuary have been:

31 March 2021		31 March 2022
2.7%	Rate of Inflation (CPI)	3.0%
3.7%	Rate of increase in salaries	4.0%
2.7%	Rate of increase in pensions	3.0%
2.1%	Rate for discounting scheme liabilities	2.7%
	Longevity at 65 for current Pensioners (years):	
23.1	Men (LGPS)	23.2
25.5	Women (LGPS)	25.6
	Longevity at 65 for future Pensioners (years):	
24.8	Men (LGPS)	23.7
27.3	Women (LGPS)	26.6

Each member is assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

Sensitivity analysis of financial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the preceding table. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. For example, the assumptions around longevity assume that life expectancy increases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous method. A sensitivity analysis has not been undertaken on unfunded benefits as it is not material.

Impact on the present value of the defined benefit obligation at 31 March 2022 from changes in assumptions

	Increase in assumption		Decrease in assumption	
	£'000	%	£'000	%
Discount rate (increase / decrease 0.1% per annum)	(100,509)	-2.1	100,509	2.1
Salary increase rate (increase / decrease 0.1% per annum)	9,572	0.2	9,572	-0.2
Pension increase rate (increase / decrease 0.1% per annum)	90,937	1.9	90,937	-1.9
Longevity (increase / decrease by 1 year)	162,729	3.4	(162,729)	-3.4

Impact on the County Council’s Cash Flows

The objectives of the scheme are to keep employers' contribution rates as stable as possible. The aim is to achieve a funding level of 100% over a period of 19 years from 1 April 2017. Funding levels are monitored on an annual basis. The latest triennial valuation was completed on 31 March 2019, and is reflected in the 2019/20 financial statements.

From 1 April 2014 the scheme became a career average revalued earnings scheme following changes introduced in the Public Pensions Services Act 2013. Prior to this the scheme was based on a member’s final salary and length of pensionable service. More information on the nature of the scheme can be found in the Pension Fund Accounts.

The total regular and fixed contributions expected to be made to the Hampshire LGPS by the County Council in the year to 31 March 2023 is £88.4 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

The weighted average duration of the defined benefit obligation for scheme members is 21.1 years (21.1 years in 2020/21).

25 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the County Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that payments will be required, or the amount of the payment cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed below.

The County Council self-insures and therefore funds its own liability claims. The liabilities are uncertain but to cover them a provision is maintained for known liability claims, assessed at £14.56 million at 31 March 2022 (see note 23) and a reserve earmarked for potential future claims, £43.68 million at 31 March 2022 (see note 4i).

The County Council has received claims under part 1 of the Land Compensation Act 1973 relating to the highway alterations in Havant and Fareham. It is unlikely that these claims will be resolved in the near future, so it is not possible to quantify reliably the potential liability associated with them.

26 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Chief Finance Officer on XX September 2023. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

A written statement by the Ministry for Housing, Communities and Local Government was published on 13 May 2021 confirming the key changes to the Local Government Pension Scheme regulations that will be made to remove age discrimination. This follows the Court of Appeal ruling in December 2018 in the McCloud and Sargeant cases, that the underpin protections for those within 10 years of retirement when the scheme changed on 1 April 2014, is age discrimination. The precise financial impact of the remedy announced in May remains difficult to determine but will potentially impact contributions to the Pension Fund. Draft regulations are expected to be published later this year.

27 Cash Flow Statements

In the Cash Flow Statements, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the County Council’s cash management.

Cash is represented by cash in hand in the County Council’s main bank account, in schools’ local bank accounts and in petty cash accounts held for minor day-to-day expenses by service units, including schools, across the whole county.

Cash equivalents are investments that are readily convertible the same day to known amounts of cash with insignificant risk of change in value.

27a Cash flow statement - operating activities

The cash flows for operating activities include the following items:

2020/21 £'000		2021/22 £'000
20,814	Interest paid	18,416
(14,738)	Interest received	(14,062)
	Dividends received	
6,076		**4,354**
	Adjustments to net surplus or deficit on the provision of services	
(156,948)	Depreciation	(158,363)
(34,400)	Impairments and downward revaluations	(39,470)
(2,619)	(Increase)/decrease in expected credit losses	(1,619)
(17,913)	(Increase)/decrease in creditors	4,915
158,178	Increase/(decrease) in debtors	(26,228)
543	Increase/(decrease) in inventory	(313)
(117,615)	Pension Liability	(187,074)
(1,439)	Carrying amount of non-current assets sold	(18,308)
(13,331)	Carrying amount of assets transferred to academy / foundation Trust schools	(9,336)
(3,424)	Adjustment for provisions	3,194
24,142	Movement in the value of investment properties and financial assets	65,447
0	Adjustment to interest charges arising from the PFI model	5,244
(3)	Property, plant & equipment (PPE) written off as revenue (REFCUS)	0
(164,829)	**Non-cash movement**	**(361,911)**

The following table adjusted for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

2020/21 £'000		2021/22 £'000
3,866	Proceeds from the sale of PPE etc	12,203
125,481	Capital grants and contributions	182,469
129,347	**Investing/financing cash flows**	**194,672**

27b Cash Flow Statement - investing activities

2020/21 £'000		2021/22 £'000
	Cash outflows	
110,261	Purchase of property, plant and equipment	222,885
323,797	Purchase of short-term and long-term investments	929,500
0	Other expenditure	0
	Cash inflows	
(3,269)	Proceeds from the sale of property, plant and equipment	(12,599)
(250,144)	Proceeds from the sale of short-term and long-term investments	(723,985)
(150,049)	Capital grants	(184,367)
(2,901)	Other income	(5,299)
27,695	**Net cash outflow from investing activities**	**226,135**

27c Cash Flow Statement - financing activities

2020/21 £'000		2021/22 £'000
	Cash outflows	
7,962	Cash payments for the reduction of the outstanding liabilities relating to PFIs	7,168
25,485	Repayments of short- and long-term borrowing	13,808
0	Other payments for financing activities	0
	Cash inflows	
(18,947)	Cash receipts of short- and long-term borrowing	(8,252)
(357)	Other receipts from financing activities	19
14,143	**Net cash outflow from financing activities**	**12,743**

28 Accounting Policies and critical judgements in applying accounting policies

General principles

The Statement of Accounts summarises the County Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These require the accounts to be prepared in accordance with proper accounting practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

28.1 Going concern basis of preparation

Local authorities cannot be created or dissolved without statutory prescription, therefore within CIPFA's Accounting Code of Practice there is a presumption that the Council's accounts will be prepared on a going concern basis for as long as a local authority's services will continue to operate. Notwithstanding the statutory basis for going concern, the Chief Financial Officer has separately assessed the underlying financial sustainability of the organisation and this is outlined below.

Financial sustainability

The Chief Financial Officer has a statutory obligation to keep the financial position of Hampshire County Council under review and to ensure that budgets set are realistic and deliverable, and that reserves are adequate. The County Council regularly reviews and updates its Medium-Term Financial Strategy, incorporating known factors that will have a positive or negative impact upon its financial strategy and making realistic assumptions to allow for the inevitable risk and uncertainty that accompanies any financial forecast. This is underpinned by the County Council's well established reserves policy and approach to identifying and delivering required savings from the budget, with regular monitoring through monthly financial resilience reporting. The medium-term strategy and current assumptions on funding, priorities and pressures informs the annual budget setting process, with outcomes monitored throughout each financial year taking a risk based approach with the escalation of issues through senior officers and elected members as appropriate.

At the end of 2021/22 reserves stood at £883m of which 2.7% comprised the General Fund balance with a further 5.7% held in the insurance and investment risk reserves. The County Council's significant reserves balance ensures that it can conduct its Treasury Management activity to make sure sufficient cash is available to meet its operational obligations whilst also taking a longer-term view to investments where appropriate, enabling greater returns to be made in support of the revenue budget, whilst also adhering to the CIPFA Treasury Management Code in prioritising the security of its investment balances.

The County Council's financial forecast for 2022/23 has been reviewed alongside assumptions for 2023/24 and 2024/25 and a prudent profile of cashflows to support the Chief Financial Officer in assessing and confirming the County Council's financial sustainability to March 2025. The reserves balance coupled with the anticipated timing of cash flows and the liquidity profile of its investments means that that County Council can meet its operational obligations over the period, with the option to sell longer-term investments and make use of its borrowing headroom as a short-term solution to any unforeseen liquidity pressures, although this would have an impact on the longer-term financial sustainability of the County Council.

Accounting Policies

28.2 Accruals of income and expenditure

Sums due to, or from, the County Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year – that is, on an accruals basis. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the County Council provides the relevant goods or services
- Supplies and services expenditure is recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as stock in the Balance Sheet
- Employee benefits, including pension benefits are accounted for as they are earned
- Interest payable and receivable on borrowing and lending is accounted for on the basis of an effective interest rate calculated for the relevant financial instrument rather than the actual cash paid or received in accordance with the contract.

However, there are some exceptions, as follows:

- Payments to casual staff and overtime are accounted for with the basic pay with which they are paid.
- Electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years.
- Pension Fund income includes dividends declared in the income tax year.

The above exceptions apply every year, so they do not have a material effect on the year's accounts.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Amounts below £10,000 are not routinely accrued at year end even if they meet the other conditions. This is because they are not material in the scale of the County Council’s overall income and expenditure. Where items of income or expenditure fall below this amount, they may still be accrued in certain circumstances such as where they are subject to specific terms and conditions relating to a grant or where there is an element of cost recovery. Items of a similar nature which are individually below this £10,000 threshold may be aggregated if they could be said to have a similar material effect upon the reporting of a particular type of income, expenditure or cost centre.

28.3 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may result from a change in accounting policies or to correct a material error.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.
Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

28.4 Stock and long-term contracts

Stocks held in the balance sheet are valued according to their differing nature and purpose. This does not accord with the International Accounting Standard 2 which requires stock to be valued at the lower of the original purchase price and current value but the differences in the valuations are not material. For example, County Supplies stock is valued at the latest buying price, while other stock is mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

Long-term contracts are accounted for on the basis of charging services with the value of works and services received under the contract during the financial year. The cost of capital schemes that are in progress at the date of the balance sheet are included as assets under construction within Property, Plant and Equipment.

28.5 Contingent assets

A contingent asset arises where an event has taken place that gives the County Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

28.6 VAT

Income and expenditure exclude VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

28.7 Transferred functions

The County Council has transferred to a charitable company, the operational responsibility for its Arts and Museums service with effect from 1 November 2014. The County Council retains ownership of the collections and the land and buildings occupied by the service and makes an annual revenue grant towards the running costs of the service.

Critical judgements in applying accounting principles

In applying its accounting policies, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events as set out in notes 28.8 to 28.13.

28.8 Asset classifications

The County Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment (PPE). The classification determines the valuation and depreciation method to be used. These judgements are based on the main reason that the County Council is holding the asset. Further details can be found in the PPE and Investment Property notes.

28.9 Lease classifications

The County Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. For the purposes of lease classifications, a de minimis level is used of £500,000.

As a result, no material finance leases have been identified. In addition, judgements have been made on whether any contracts for services include embedded leases. None have been identified.

28.10 Providing for potential liabilities

The County Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that could eventually result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending cases based on experience in previous years or in other local authorities.

28.11 Production of group accounts

In accordance with the Code of Practice the County Council has carried out an assessment of its interests in other entities to determine the nature of any group relationships that exist. This includes an assessment of the extent of the County Council's control over the entity considered either through ownership (such as shareholding) or representation on an entity's board of directors. The main interests held by the County Council in other entities are detailed in the Collaborative Arrangements and Group Accounts section of this statement of accounts. However, none are considered material and thus the production of group accounts is not required.

28.12 Reportable segments

The service analysis within the Comprehensive Income and Expenditure Statement and the segmental analysis within the Expenditure and Funding Analysis is based on the County Council's internal management reporting as set out in the budget report. The majority of spend is controlled by departmental directors, with central control of capital financing, contingencies and specific grant income.

29 Uncertainties relating to assumptions and estimates used

There are two significant items on the County Council's Balance Sheet at 31 March 2022 for which there is a risk of adjustment in the forthcoming financial year owing to uncertain economic and political events. These are the estimated values for the pension liability and property, plant and equipment (PPE). However, variations in these values do not impact the usable reserves of the County Council.

Estimation of the net liability to pay pensions depends on a number of complex assumptions related to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, expected returns on pension fund assets and the actual remedy agreed for transition provisions. The County Council engages a firm of consulting actuaries to provide expert advice on the assumptions to be applied. The effects of changes in individual assumptions on the pension liability can be measured and a sensitivity analysis is provided in note 24g.

The County Council commissions a 5 year rolling programme of PPE and Investment Property valuations, unless events indicate that a valuation is required ahead of the next planned valuations. Valuations are undertaken by qualified valuers within Hampshire County Council's Property department in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. These take account of current trends in building costs, local planning policies and other relevant factors. For assets not included in the current year's valuation programme, the change in value is estimated using Building Cost Information Services (BCIS) indices. However, because valuations cannot be determined with complete certainty, actual results could be different from the assumptions and estimates. A 1% change in valuations equates to £34m.

30 Accounting standards issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The additional disclosures that will be required in the 2022/23 financial statements in respect of accounting changes introduced in the 2022/23 Code are:

- Property, Plant and Equipment (PPE): Proceeds before Intended Use (Amendments to IAS 16)
    - This amendment prohibits organisations deducting from the cost of PPE the proceeds of items produced using that PPE before it was fully operational as intended. This accounting standard is aimed at manufacturing, so as our focus is on providing public services we do not expect it to have any impact on our accounts.

- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes the following changed standards:

    - IFRS 1 (First-time adoption)
        - This amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS. We do not expect this to have any impact on us as we have no plans to acquire subsidiaries with foreign operations.

    - IAS 37 (Onerous contracts)
        - The change clarifies what should be classified as an onerous cost. We do not have any onerous contracts so do not expect this to have any impact on us.

    - IAS 41 (Agriculture)
        - This accounting standard relates to farming and how biological assets (plants and animals) should be valued when they are harvested. The Council owns a number of farms but almost all of them are let out to tenants. As the Council does not own the animals and plants on tenanted farms this change has no impact on the Council's accounts for these farms. The Council does own and run some small farms as visitor attractions in country parks, such as Manor Farm and Staunton. However, the value of their biological assets is not material enough to affect the Council's accounts.

The Code only requires items to be mentioned here which will be adopted in 2022/23. However, it is also useful to note that the adoption of IFRS 16 (which is about accounting for leases) has been delayed again and we are currently planning to adopt it in 2024/25.

Pension Fund Accounts

Fund Account	See note	2020/21 £'000	2021/22 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	497,238	199,267
Transfers in from other pension funds		13,748	16,178
		510,986	**215,445**
Benefits	8	(270,665)	(285,525)
Payments to and on account of leavers		(14,630)	(18,758)
		(285,295)	**(304,283)**
Net additions from dealings with members		**225,691**	**(88,838)**
Management expenses	9	**(53,871)**	**(63,956)**
Net additions inc. fund management expenses		171,820	(152,794)
Returns on investments			
Investment income	10	102,410	106,521
Taxes on income		(350)	176
Profits and losses on disposal of investments and changes in the market value of investments	11a	1,888,455	600,156
Net return on investments		**1,990,515**	**706,853**
Net increase in the net assets available for benefits during the year		**2,162,335**	**554,059**
Opening net assets of the scheme		6,910,480	9,072,815
Closing net assets of the scheme		9,072,815	9,626,874

Net Assets Statement for the year ending 31 March 2022	See note	31 March 2021 £'000	31 March 2022 £'000
Investment assets		8,938,561	9,508,612
Cash deposits		26	27
Investment liabilities		0	(40)
Total net investments	**11**	**8,938,587**	**9,508,599**
Current assets	18	140,155	125,033
Current liabilities	19	(5,927)	(6,758)
Net assets of the Fund available to fund benefits at the period end		**9,072,815**	**9,626,874**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the period end. The actuarial present value of promised retirement benefits is disclosed at Note 17.

Notes to the Pension Fund accounts

1. Description of Fund

The Hampshire Pension Fund (the ‘Fund’) is part of the Local Government Pension Scheme and is administered by Hampshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the Scheme.

a) General

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit pension scheme administered by Hampshire County Council to provide pensions and other benefits for pensionable employees of Hampshire County Council, Portsmouth and Southampton City Councils, the 11 district councils in Hampshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Hampshire Pension Fund Panel and Board, which is a committee of Hampshire County Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hampshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar

bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 350 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2021	31 March 2022
Number of employers with active members	337	350
Number of employees in Scheme		
County Council	27,234	28,049
Other employers	31,766	32,995
Total	**59,000**	**61,044**
Number of pensioners		
County Council	19,813	20,949
Other employers	25,763	27,087
Total	**45,576**	**48,036**
Deferred pensioners		
County Council	39,019	40,914
Other employers	39,815	41,432
Total	**78,834**	**82,346**
Total members in the Pension Fund	**183,410**	**191,426**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay in the Main Section, and 2.75% to 6.25% of pensionable pay in the 50/50 Section, for the financial year ending 31 March 2022. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2019. Employer contribution rates for most employers were a range from 16.7% to 25.2% of pensionable pay. A small number of employers also pay a past service deficit contribution.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Hampshire Pension Fund's website: https://www.hants.gov.uk/hampshire-services/pensions

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year end at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. The Code only requires items to be mentioned here which will be adopted in 2022/23. However, it is also useful to note that the adoption of IFRS 16 (which is about accounting for leases) has been delayed again and adoption is planned in 2024/25. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 17.

The vast majority of employers in the pension scheme (91% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions. Following the latest actuarial valuation and schedule of employer contribution prepayments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet is ongoing obligations to pay pensions from its cash balance for at least 12 months from the date of signing the accounts. In the event that investments need to be sold 78% of the Fund's investments can be converted into cash within 3 months.

3. Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate. As set out in the Fund Actuary's Rates and Adjustment certificate, certain employers can pay the primary and/or secondary contributions for the 3 years of the valuation period.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received/paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase Scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Rental income from operating leases on properties owned by the Fund is recognised in the fund account when it is paid by the tenant according to the terms of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities, providing that the payment has been approved.

e) Management expenses

The Fund discloses its management expenses in line with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs* (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows.

Administrative expenses

All staff costs of the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses to the Fund.

Oversight and governance costs

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the Fund.

Investment management expenses

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the income receivable.

Investment fees of the external investment managers and custodian are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Where an investment manager’s fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2021/22 £2.3 million of fees is based on such estimates (2020/21 £3.4 million).

f) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Income and expenditure exclude VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

Net Assets Statement

g) Financial assets

All investment assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 11a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the Net Assets Statement have been determined in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

h) Freehold and leasehold properties

Properties are valued annually as at the year-end date by an independent external valuer, Mark White, BSc MRICS of Colliers International, on a fair value basis in accordance with the *Royal Institute of Chartered Surveyors' Valuation – Current Global Standards*; see Note 13 for more details.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 12).

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund’s external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 17).

n) Additional voluntary contributions

The fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Utmost, but only by legacy contributors (closed to new members).

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds)

Regulations 2016 but are disclosed as a note only (see Note 20).

o) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event has taken place prior to the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

4. Critical judgements in applying accounting policies

Unquoted alternative investments

It is important to recognise the subjective nature of determining the fair value of alternative investments: private equity, infrastructure and private debt. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equity and infrastructure investments are valued by the investment managers using guidelines set out by the *International Private Equity and Venture Capital Valuation Guidelines*. The value of unquoted private equity investments was £598 million and infrastructure investments was £470 million at 31 March 2022 (£443 million and £269 million respectively at 31 March 2021). There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as *Duff & Phelps*. The value of unquoted private debt investments at 31 March 2022 was £340 million (£220 million at 31 March 2021).

Pension fund liability

The pension fund liability is recalculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions, which are agreed with the actuary and are summarised in Note 16.

These actuarial revaluations are used to set future employer contribution rates and underpin the Fund’s most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund’s property portfolio includes a number of directly owned properties, which are leased commercially to various tenants with rental periods from less than a month to 116 years (based on current leases). The Fund has determined that these contracts all constitute operating lease arrangements under the classification permitted by IAS7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account when it is paid by the tenant according to the terms of the lease.

Wholly owned companies

The Pension Fund’s investments include two companies that it owns that have been specifically created to hold the Pension Fund’s investments. These companies have no other purpose and therefore the value of the companies is equal to value of the investments.

The Pension Fund accounts for these investments according to the types of investments held by the companies, in line with the rest of the Pension Fund's accounting and reporting.

5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2022 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 17)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £1,023 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £47 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £372 million.
Alternative	Private equity investments are	The total private equity

Item	Uncertainties	Effect if actual results differ from assumptions
investments - Private equity (Note 13)	valued at fair value in accordance with the *International Private Equity Venture Capital Valuation Guidelines*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	investments in the financial statements are £598 million. The investment manager recommends a tolerance of 10% around the net asset value (+/-£60m)
Alternative investments - Infrastructure (Note 13)	Infrastructure investments are valued at fair value in accordance with the *International Private Equity Venture Capital Valuation Guidelines*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure investments in the financial statements are £470 million. The investment managers recommends a tolerance of 10% around the net asset value (+/-£47m)
Alternative investments - Private debt (Note 13)	There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as *Duff & Phelps*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private debt investments in the financial statements are £340 million. The investment managers recommends a tolerance of 5% around the net asset value (+/-£17m)

6. Events after the reporting date

There have been no post-balance sheet events.

7. Contributions receivable

By category		
	2020/21	2021/22
	£'000	£'000
Employees' contributions	73,431	77,554
Employers' contributions		
Normal contributions	413,577	116,347
Deficit recovery contributions	10,230	5,366
Total employers' contributions	423,807	121,713
Total contributions receivable	**497,238**	**199,267**

By type of employer		
	2020/21	2021/22
	£'000	£'000
Administering authority	262,158	38,812
Scheduled bodies	222,631	146,326
Admitted bodies	12,449	14,129
Total	**497,238**	**199,267**

Employers contributions reduced in 2021/22 as a number of employers in the Fund choose to pre-pay their contributions for the 2020/21 to 2022/23 actuarial period in 2020/21, as set out in the Fund Actuary's Rates and Adjustments Certificate in the 2019 Actuarial Valuation report 2019-valuationreport.pdf (hants.gov.uk).

8. Benefits payable

By category		
	2020/21	2021/22
	£'000	£'000
Pensions	229,754	236,663
Commutation and lump sum retirement benefits	35,498	42,862
Lump sum death benefits	5,413	6,000
Total	**270,665**	**285,525**

By type of employer		
	2020/21	2021/22
	£'000	£'000
Administering authority	103,091	107,681
Scheduled bodies	154,467	162,994
Admitted bodies	13,107	14,850
Total	**270,665**	**285,525**

9. Management expenses

	2020/21 £'000	2021/22 £'000
Administrative costs	2,306	2,455
Investment management expenses	50,799	60,722
Oversight and governance costs	766	779
Total	**53,871**	**63,956**

This analysis of the costs of managing the Hampshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

In addition to these costs, implicit costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 11a).

9a) Investment Management Expenses

2021/22	Management fees £000	Transaction costs £000	**Total £000**
Bonds	0	0	**0**
Equities	0	0	**0**
Pooled investments*	17,796	1,744	**19,540**
Pooled property investments	0	0	**0**
Property	1,263	4,251	**5,514**
Alternatives	26,927	8,522	**35,449**
Cash	0	9	**9**
	45,986	14,526	**60,512**
Custody and other investment costs			**210**
Total			**60,722**

*includes the following amounts paid as part of the ACCESS pool

Link	11,622
UBS	1,525

2020/21	Management fees £000	Transaction costs £000	**Total £000**
Bonds	0	0	**0**
Equities	1,598	1,716	**3,314**
Pooled investments*	9,757	940	**10,697**
Pooled property investments	52	112	**164**
Property	964	6,833	**7,797**
Alternatives	24,970	3,742	**28,712**
Cash	0	11	**11**
	37,341	13,354	**50,695**
Custody and other investment costs			**104**
Total			**50,799**

*includes the following amounts paid as part of the ACCESS pool

Link	3,925
UBS	1,186

10. Investment income

	2020/21 £'000	2021/22 £'000
Income from bonds	0	0
Income from equities	17,464	0
Pooled property investments	261	2,496
Pooled investments – unit trusts and other managed funds	26,334	39,382
Rents from property	27,985	27,092
Interest on cash deposits	188	42
Alternative investment income	29,207	37,379
Stock lending	60	0
Other	911	130
Total before taxes	**102,410**	**106,521**

11. Investments

	Market value 31 Mar 2021 £'000	Market value 31 Mar 2022 £'000
Investment Assets		
Bonds	**0**	**0**
Equities	**0**	**0**
Pooled funds		
- Fixed income unit trusts	2,987,605	3,051,668
- Unit trusts	4,476,377	4,383,052
	7,463,982	**7,434,720**
Other investments		
Pooled property investments	72,435	87,697
Alternative investments	932,407	1,408,541
Property	471,250	577,600
Derivative contracts:		
- Forward currency contracts	73	14
	1,476,165	**2,073,852**
Cash deposits	26	27
Total investment assets	**8,940,173**	**9,508,599**

11a) Reconciliation of movements in investments and derivatives

Period 2021/22	Market value 1 April 2021 £'000	Purchases and derivative payments £'000	Sales and derivative receipts £'000	Change in value during the year £'000	Market value 31 Mar 2022 £'000
Equities	0	0	0	0	0
Pooled investments	7,463,982	884,759	(1,186,157)	272,136	7,434,720
Pooled property investments	72,435	12,841	(94)	2,515	87,697
Alternative investments	932,407	381,802	(161,548)	255,881	1,408,542
Property	471,250	54,705	(31,657)	83,302	577,600
	8,940,074	**1,334,107**	**(1,379,456)**	**613,834**	**9,508,559**
Derivative contracts:					
- Forward foreign exchange	(1,513)	23,500	(6,546)	(15,428)	13
	(1,513)	**23,500**	**(6,546)**	**(15,428)**	**13**
Other investment balances:					
- Cash deposits	26			1,750	27
Net investment assets	**8,938,587**			**600,156**	**9,508,599**

Period 2020/21	Market value 1 April 2020 £'000	Purchases and derivative payments £'000	Sales and derivative receipts £'000	Change in value during the year £'000	Market value 31 Mar 2021 £'000
Bonds	0	0	0	0	0
Equities	721,741	31,970	(996,537)	242,826	**0**
Pooled investments	4,870,711	2,185,617	(1,057,932)	1,465,586	7,463,982
Pooled property investments	54,268	20,712	(593)	(1,952)	72,435
Alternative investments	645,310	228,392	(120,298)	179,003	932,407
Property	455,280	32,323	(8,222)	(8,131)	471,250
	6,747,310	**2,499,014**	**(2,183,582)**	**1,877,332**	**8,940,074**
Derivative contracts:					
- Forward foreign exchange	(7,338)	11,029	(22,661)	17,457	(1,513)
	(7,338)	**11,029**	**(22,661)**	**17,457**	**(1,513)**
Other investment balances:					
- Cash deposits	105			(6,335)	26
Net investment assets	**6,740,077**			**1,888,454**	**8,938,587**

Purchases and sales of derivatives are recognised in Note 11a. Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

11b) Investments analysed by fund manager

	Market value 31 March 2021 £'000	%	Market value 31 March 2022 £'000	%
Investments part of the ACCESS pool				
ACCESS Pooled investments managed by Link				
Acadian	536,778	5.9	618,750	6.4
Baillie Gifford	1,599,468	17.7	1,423,598	14.8
Dodge & Cox	657,457	7.2	759,890	7.9
ACCESS Pooled investments managed by UBS	3,254,406	35.9	3,228,343	33.5
	6,048,109	66.7	6,030,581	62.6
Investments held outside of the ACCESS pool				
Abrdn	447,385	4.9	602,678	6.3
Alcentra	463,141	5.1	476,204	4.9
Barings	388,622	4.3	386,687	4.0
CBRE Global Investors	543,487	6.0	665,297	6.9
GCM Grovsnor	269,609	3.0	474,273	4.9
Insight	284,849	3.1	272,305	2.8
JP Morgan Alternative Asset Management	218,876	2.4	342,050	3.6
Twenty-four Asset Management	279,261	3.1	268,942	2.8
	2,895,229	31.9	3,488,436	36.2
Other investments	225	0.0	24	0.0
Other net assets	129,252	1.4	107,833	1.2
Total	**9,072,815**	**100.0**	**9,626,874**	**100.0**

All the companies named above are registered in the United Kingdom.

The Pension Fund has no investment in a single company/asset that exceeds 5% of the net assets available for benefits.

11c) Property holdings

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase or sell any of these properties. The Pension Fund is required to meet the cost of repairs, maintenance or enhancements necessary to maintain the investment income of its property assets.

The future minimum lease payments receivable by the Fund are as follows.

	Year ending 31 March 2021 £'000	Year ending 31 March 2022 £'000
Within one year	18,816	22,525
Between one and five years	61,038	62,749
Later than five years	157,336	183,942
Total future lease payments due under existing contracts	**237,190**	**269,216**

The above disclosures have been reduced by a credit loss allowance of 4.5% per annum, reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property investment manager. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

12. Analysis of derivatives

Objectives and policies for holding derivatives

Investments in forward currency contracts were to hedge exposures to reduce risk in the Fund by removing the exposure to foreign (non-Sterling) currency. The forward foreign currency contracts are all OTC (over the counter) contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

Open forward currency contracts

At 31 March 2022, the Fund had open forward currency contracts in place with a net unrealised gain of £0.014 million.

Settlements	Currency bought	Local value	Currency sold*	Local value	Asset value	Liability value
		'000		'000	£'000	£'000
1 to 6 months	GBP	305,095	USD	(401,518)	54	0
1 to 6 months	USD	4,354	GBP	(3,334)	0	(25)
1 to 6 months	GBP	3,340	EUR	(3,958)	0	(15)
Open forward currency contracts at 31 March 2022					**54**	**(40)**
Net forward currency contracts at 31 March 2022						**14**

Prior year comparative

Settlements	Currency bought	Local value	Currency sold*	Local value	Asset value	Liability value
		'000		'000	£'000	£'000
Less than 1 month	EUR	**473**	GBP	**-405**	**0**	**(3)**
1 to 6 months	GBP	215,684	USD	(299,742)	60	(1,579)
1 to 6 months	USD	956	GBP	(696)	0	(4)
1 to 6 months	GBP	2,831	EUR	(3,303)	13	0
Open forward currency contracts at 31 March 2021					73	(1,586)
Net forward currency contracts at 31 March 2021						(1,513)

* List of currencies EUR = Euro GBP = British Pound USD = United States Dollar

13. Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Market quoted investments	1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Spot foreign exchange contracts	1	Market exchange rates at the year end	Not required	Not required
Exchange traded pooled	1	Closing bid value on published exchanges	Not required	Not required

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
investments				
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	2	Market forward exchange rates at the year end	Exchange rate risk	Not required
Pooled investments – fixed income	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required
Pooled investments – property funds	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required
Freehold and leasehold properties	2	Valued at fair value at the year end using the investment method of Mark White, BSc MRICS of Colliers International in accordance with the *RICS Valuation – Current Global Standards*	Comparable recent market transactions on arm's-length terms	Not required
Alternative Investments – Hedge funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Alternative Investments – Private equity, infrastructure and private debt	3	Comparable valuation of similar companies in accordance with *International Private Equity Venture Capital Valuation Guidelines* where appropriate or use of third-party valuers such as *Duff & Phelps*.	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium Loan to value multiple	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with the Fund's investment managers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges and has set below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Assessed valuation range (+/-)	Value at 31 March 2022	Value on increase	Value on decrease
		£'000	£'000	£'000
Alternative Investments - Hedge funds	5%	24	26	23
Alternative Investments - Private debt	5%	340,468	357,491	323,445
Alternative Investments - Infrastructure	10%	470,486	517,536	423,438
Alternative Investments - Private equity	10%	597,563	657,319	537,806

13a) Fair value hierarchy

Assets and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair value. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities 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.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2022	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	6,571,829	950,642	1,408,541	8,931,012
Non-financial assets at fair value through profit and loss	0	577,600	0	577,600
Financial liabilities at fair value through profit and loss	0	(40)	0	(40)
Net investment assets	**6,571,829**	**1,528,202**	**1,408,541**	**9,508,572**

Values at 31 March 2021	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	6,612,218	924,271	932,407	8,468,896
Non-financial assets at fair value through profit and loss	0	471,250	0	471,250
Financial liabilities at fair value through profit and loss	(2)	(1,583)	0	(1,585)
Net investment assets	**6,612,216**	**1,393,938**	**932,407**	**8,938,561**

The table includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included.

13b) Reconciliations of fair value measurements within level 3

Period 2021/22	Market value 31 March 2021	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Alternative investments	932,407	381,802	(161,548)	255,881	**1,408,542**

Period 2020/21	Market value 31 March 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Alternative investments	645,310	228,392	(120,298)	179,003	**932,407**

14 Financial instruments

14a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

31 March 2021				31 March 2022		
Fair value through profit and loss £'000	Assets at amortised cost £'000	Liabilities at amortised cost £'000		Fair value through profit and loss £'000	Assets at amortised cost £'000	Liabilities at amortised cost £'000
			Financial assets			
0			Fixed interest securities	0		
0			Equities	0		
7,463,982			Pooled investments	7,434,720		
72,435			Pooled property investments	87,697		
932,407			Alternatives	1,408,541		
73			Derivative contracts	54		
12,590	90,477		Cash	56,640	28,536	
	12,142		Debtors		11,039	
8,481,487	**102,619**	**0**		**8,987,652**	**39,575**	**0**
			Financial liabilities			
(1,586)			Derivative contracts	(40)		
		(4,570)	Creditors			(5,353)
(1,586)	**0**	**(4,570)**		**(40)**	**0**	**(5,353)**
8,479,901	**102,619**	**(4,570)**		**8,987,612**	**39,575**	**(5,353)**

14b) Net gains and losses on financial instruments

31 March 2021 £'000		31 March 2022 £'000
	Financial assets	
1,879,128	Fair value through profit and loss	532,283
	Financial liabilities	
17,457	Fair value through profit and loss	(15,428)
1,896,585	**Total**	**516,855**

The Administering Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

15. Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel and Board. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

15a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:
- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund’s investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2021/22 reporting period based on a one standard deviation movement in the value of the Fund’s investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-)
Overseas equities	15.56%
UK bonds	13.12%
Overseas bonds	8.81%
Property	5.09%
Alternative investments	6.20%
Cash	0.11%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the previous table, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2022	**9,508,599**	**1,143,058**	**10,651,657**	**8,365,541**
Total assets 2021	8,938,587	1,076,231	10,014,818	7,862,356

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates. The figures below for Fixed Interest Securities do not include the Fund's pooled investment in Index Linked Gilts. This better reflects the Fund's approach to the management of investment risk and how this analysis is applied to the Fund's different investments.

Assets exposed to interest rate risk	Value as at 31 March 2022 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	85,149	0	85,149	85,149
Cash deposits	27	0	27	27
Total	**85,176**	**0**	**85,176**	**85,176**

Assets exposed to interest rate risk	Value as at 31 March 2021 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	103,042	0	103,042	103,042
Cash deposits	26	0	26	26
Total	**103,068**	**0**	**103,068**	**103,068**

Income exposed to interest rate risk	Amount receivable as at 31 March 2022 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits / cash & cash equivalents	42	941	983	(899)
Total	**42**	**941**	**983**	**(899)**

Income exposed to interest rate risk	Amount receivable as at 31 March 2021	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash deposits / cash & cash equivalents	194	1,242	1,436	(1,048)
Total	**194**	**1,242**	**1,436**	**(1,048)**

Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds). The Fund holds both monetary and non-monetary assets denominated in currencies other than GB pounds.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk – sensitivity analysis

Following analysis of historical data, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 7.1% (as measured by one standard deviation).

A 7.1% fluctuation in the currency is considered reasonable based on the Pension Fund's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2022	4,807,023	**341,288**	**5,148,311**	**4,465,735**
Total assets 2021	4,333,409	254,950	4,588,359	4,078,459

15b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on OTC derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Pension Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Pension Fund invests an agreed percentage of its funds in the money markets to provide diversification. The money market funds chosen all have AAA rating from a leading ratings agency.

The Pension Fund has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years. The Fund's cash holding under its treasury management arrangements at 31 March 2022 was £73.95 million (31 March 202: £97.75 million). This was held with the following institutions:

	Rating as at 31 March 2022	Balance as at 31 March 2021 £'000	Balance as at 31 March 2022 £'000
Money market funds			
abrdn (formerly Aberdeen Standard)	AAAm	5,200	9,920
Blackrock	AAAm	0	8,840
DWS	AAAm	2,590	7,960
Federated Investors UK	AAAm	4,800	8,680
Insight	AAAm	0	9,610
JP Morgan	AAAm	0	11,630
Bank deposits			
Lloyds	A+	8,670	2,810
NatWest	A	3,490	6,410
Landesbank Baden-Wurttemberg	A	12,000	0
Handelsbanken	AA-	0	8,090
Treasury bills			
UK Government	AA-	5,000	0
Local Authority deposits			
Local Authority deposits	n/a	56,000	0
Total		**97,750**	**73,950**

15c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2022 the value of illiquid assets was £2,037 million, which represented 21.8% of the total fund assets (31 March 2021: £1,436 million, which represented 16.1% of the total fund assets).

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund’s cash flows. All financial liabilities at 31 March 2022 are due within one year.

Refinancing risk

The key risk is that the Pension Fund will be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

16. Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund’s actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2022 and the results are published on the Pension Fund’s website 2022-ActuarialValuationReport.pdf (hants.gov.uk). The next valuation will take place at 31 March 2025.

The key elements of the funding policy are:

- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met and that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so

- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 25 years from 1 April 2022 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

At the 2022 actuarial valuation, the Fund was assessed as 107% funded (99% at the March 2019 valuation). This corresponded to a surplus of £637 million (2019 valuation: £78 million deficit) at that time.

The aggregate employer contributions were certified as 18.1% of Pensionable Pay, plus an additional total contribution amount of £2.7 million over 2023/24, £2.8 million over 2024/25 and £2.9 million over 2025/26. Some employers were also given the option to pay their employer contributions earlier than the dates assumed in the actuary's calculations, for a discount, based on terms set out in the Rates and Adjustments Certificate.

The Fund operates three funding groups (or pools) in which participating employers share risks and pay a common primary contribution rate. All academies participate in the Academy Pool; all Town and Parish Councils participate in the Town and Parish Council Pool, and many of the charitable community admission bodies continue to participate in the Admission Body Group. Further information on these funding arrangements is contained within the Funding Strategy Statement. All other employers' liabilities and contribution rates are assessed individually.

Contribution schedules for the period to 31 March 2026 have been agreed for all employers. The contributions for employers reflect the profiles of their membership (or profile of the group in which they participate); the approach taken to value the liabilities on exit; the covenant of the employer and take into account the recovery of any surplus or deficiency relating to their participation over an appropriate period. Where annual contribution amounts have been certified to an employer to remove a deficit these are expected to increase by approximately 3.3% p.a. until 31 March 2039 (or an earlier date in some cases depending on the employer's circumstances).

The valuation of the Fund has been undertaken using the projected unit method for most employers, under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

Financial assumptions

Full details of the assumptions used by the Fund's actuary are set out in the 2022 actuarial valuation report and summarised in the Statement of the Actuary.

Generally, a common set of assumptions is adopted for all employers in the Fund with the exception of the discount rate (assumption for future investment returns) which is dependent on the circumstances of the employer. In setting the discount rate the actuary takes into account the financial risk of the employer and, if the employer is expected to exit the Fund in the future, will have regard to the funding target that will be used in an exit valuation under Regulation 64.
The main actuarial assumptions that were used for the secure scheduled bodies in the March 2012 actuarial valuation were as follows:

Discount rate	4.4% a year
Rate of general pay increases	3.3% a year
Rate of increase to pension accounts and deferred pension increases and pensions in pensions in payment (in excess of Guaranteed Minimum Pension)	2.3% a year

In addition, in 2022 an 8% uplift was applied to the past service liabilities to make allowance for short-term inflation above the long-term assumption.

The assets were valued at market value.

Demographic assumptions:

A 65 year old pensioner retiring in normal health in 2022 was assumed on average to live to 88.2 (males) and 90.6 (females), rather than 87.9 (males) and 90.4 (females) under the assumptions adopted at the previous valuation
.
Allowance is made for mortality improvements such that an active member currently aged 45 is expected to live to age 88.7 (males) and 91.6 (females).

Commutation assumption:

Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

50:50 option:

All active members were assumed to remain in the Scheme they were in at the valuation date.

17. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the Pension Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting the Fund's contribution rates and the Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 16). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2022 was £13,000 million (31 March 2019: £10,141 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date.

As noted above the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2022 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

The principal financial assumptions used by the Fund's actuary for the March 2022 IAS 19 calculation were:

Discount rate	2.7%
CPI inflation / pension increase rate assumption	3.0%
Salary increase rate	4.0%

18. Current assets

	31 March 2021 £'000	31 March 2022 £'000
Debtors:		
- Contributions due - employees	369	317
- Contributions due - employers	19,894	24,848
- Transfer values receivable (joiners)	1,521	0
- Tax	3,187	3,680
- Sundry debtors	12,142	11,039
Cash balances	103,042	85,149
Total	**140,155**	**125,033**

Analysis of debtors

	31 March 2021 £'000	31 March 2022 £'000
Central government bodies	6,176	12,885
Other local authorities	14,634	19,358
Other entities and individuals	16,303	7,641
Total	**37,113**	**39,884**

19. Current liabilities

	31 March 2021 £'000	31 March 2022 £'000
Sundry creditors	4,570	5,353
Transfer values payable (leavers)	0	0
Benefits payable	495	465
Tax	862	940
Total	**5,927**	**6,758**

Analysis of Creditors

	31 March 2021 £'000	31 March 2022 £'000
Central government bodies	862	940
Other local authorities	745	2,049
Other entities and individuals	4,320	3,769
Total	**5,927**	**6,758**

20. Additional voluntary contributions

	Market value 31 March 2021 £'000	Market value 31 March 2022 £'000
Prudential	18,527	17,648
Zurich	5,800	5,525
Utmost	852	812
Total	**25,179**	**23,985**

During the year, AVCs of £2.300 million were paid directly to Prudential (2020/21: £2.309 million), £0.194 million to Zurich (2020/21: £0.263 million), and £0.003 million to Utmost (2020/21: £0.006 million).

21. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £8.475 million to the Fund in 2021/22 (2020/21 £233.465 million). The contributions paid in 2021/22 decreased significantly as a result of the County Council choosing to pre-pay its contributions for the 2020/21 to 2022/23 actuarial period in 2020/21, as set out in the Fund Actuary's Rates and Adjustments Certificate.

During the reporting period, the County Council incurred costs of £3.081 million (2020/21: £2.983 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The key management personnel of the Fund are the Director of Corporate Operations of Hampshire County Council, acting as Chief Finance Officer (CFO) to the Fund, and the Head of Pensions, Investments and Borrowing. Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council's charge for the administration of the Fund above. Details of the salary of the Director of Corporate Operations can be found in the main accounts of Hampshire County Council.

Part of the Pension Fund's cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2022, the Fund had an average cash balance of £79,187 million (year to

31 March 2021: £158.602 million), earning interest of £0.042 million (2020/21 £0.194 million) on these funds.

22. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2022 totalled £745.049 million (31 March 2021: £539.490 million). These commitments relate to outstanding call payments due on unquoted alternative investment and property limited partnership funds held in the alternative investments and property parts of the Fund. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

In December 2018 the Court of Appeal ruled against the Government in the McCloud and Sargeant cases, that the underpin protections for those within 10 years of retirement is age discrimination. The underpin was a protection that was put in place when the scheme changed on 1 April 2014 and applied to members who were an active member on 31 March 2012 and were within 10 years of their normal retirement age (usually 65). The Public Service Pensions and Judicial Offices Act 2022, the main purpose of which is to support implementation of the McCloud remedy, gained Royal Assent in March 2022. Draft regulations to implement the underpin element of the remedy are expected in 2022/23. The financial impact of the remedy remains difficult to determine, but it is a potential future liability for the Fund.

Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund

1. Scope of Responsibility

Hampshire County Council is responsible for ensuring that:

- its business is conducted in accordance with the law and to proper standards.
- public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively.
- pursuant to the Local Government Act 1999 it secures continuous improvements in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy.
- there is a sound system of internal control, which facilitates the effective exercise of the County Council's functions and which include arrangements for the management of risk.

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel and Board. The combined Panel and Board is responsible for investment, management and governance of the Fund. This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement during 2021-2022.

2. The purpose of Corporate Governance

The governance framework comprises the systems and processes, and cultures and values, by which the County Council is directed and controlled and its activities through which it accounts to, engage with and leads the community. It enables the County Council to monitor the achievements of the County Council’s strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of the County Council’s policies aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2022 and up to the date of approval of the annual report and the statement of accounts.

The County Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. A copy of the Code is available on the County Council's Web site at:

Code of Corporate Governance

3. Core Principles of good governance

3.1 Behaving with Integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

3.1.1 The County Council's Constitution is founded on it operating in an open and transparent way, and for the Leader of the County Council and the Chief Executive to set the tone for the organisation by creating a climate and culture of openness, support, and respect.

3.1.2 The County Council is committed to the highest ethical standards and has adopted a governance framework to re-enforce this philosophy as well as procedures to investigate any issues should the need arise. The framework, policies and procedures are set out in the County Council's Code of Corporate Governance which was adopted by the County Council during 2016-17. The Code of Corporate Governance demonstrates a comprehensive commitment on the part of the County Council to integrity, ethical values and the rule of law.

3.1.3 Officers from Legal Services and Governance monitor new legislation with the assistance of on-line resources and provide an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to implement it.

3.1.4 Covid 19 Specific legislation was reviewed by senior officers in Legal Services who worked closely with Departments on the implementation of the relevant provisions.

3.1.5 The County Council continues to further strengthen the arrangements governing work to advance inclusion and diversity across the Authority and its services, extending this to encompass wellbeing. In addition to a Steering Group, chaired by the Chief Executive, and an Operational Forum, bringing together Equalities Leads and Champions, several new groups have been established. These include a Group chaired by the Director of HR, Organisational Development, Communications and Engagement to oversee the County Council's formal staff networks and a new Wellbeing Task Group, focused on driving forward work to improve employee wellbeing. In addition, Inclusion Sponsors have been identified within each department. These Senior Offices play an important role in strengthening the County Council's external facing inclusion work, ensuring improvement actions are embedded within departments and empowering staff at all levels to contribute to this agenda.

3.1.6 A strategic work programme is in place which demonstrates how the County Council is delivering against its Equality Objectives. This is informed by staff feedback and the results of external assessment against the National Inclusion Standard, undertaken by Inclusive Employers. The County Council received *Bronze* award following its 2019 assessment, ranking top of the category and third overall. In the autumn of 2021, the County Council was awarded Level 2 accreditation in the Disability Confidence Scheme. This Scheme encourages employers to improve how they recruit, retain and develop disabled people and will support the Council as being an employer of choice. The work programme has been further developed this year to include Health and Wellbeing and is reported on a quarterly basis to the Steering Group, and the Corporate Management Team and on a bi-annual basis to Cabinet. This activity enables the County Council to meet, and go beyond, its statutory obligations under the Equalities Act.

3.2 Ensuring openness and comprehensive stakeholder engagement.

3.2.1 The County Council's Corporate Strategy – the *Serving Hampshire* Strategic Plan - contains clear strategic aims which are communicated on the County Council's website and through various communications. The Plan provides an operating model for business planning and is informed by various departmental and partnership strategies and priorities. A revised Strategic Plan for the period 2021-2025 was agreed by the County Council in September 2021 and a further amendment in November 2021.

3.2.2 Clear guidance and protocols on decision making, effective arrangements for the approval of exempt reports and easy to use templates for decision reports and records ensure that that the County Council takes decisions in public when appropriate and after a full consideration of relevant factors. Details of the framework relevant to decision making is set out in the Corporate Governance Framework.

3.2.3 Public consultation and engagement to inform decision making is undertaken in accordance with the County Council's Consultation Policy, which includes five principles of consultation setting out when and how the County Council will consult the public. Significant and statutory consultation is supported by the County Council's Insight and Engagement Unit, which operates within the Market Research Society's ethical Code of Conduct.

3.2.4 The results of all significant consultations are presented at the relevant decision-making forum to demonstrate how participants' views have been considered.

3.2.5 Consultation methodology is based on stakeholder analysis and equality impact assessment, undertaken at the outset of planning any engagement. This informs the best approach to reaching the target audience, including those who may be harder to engage. Alongside more traditional forms of engagement, such as surveys, the County Council employs creative tools and techniques where appropriate to engage different audiences. For example in order to ensure specific groups identified as at risk of worse outcomes from COVID-19, a cohort of community researchers from these groups were identified and trained in order to undertake in-depth engagement and target messaging within their communities. Digital platforms, such as Facebook Live, are also being used to engage younger audiences and those who may find it more difficult to attend focus groups in-person. The regular residents' survey- 'Hampshire Perspectives' continues to support the County Council's insight into residents' opinions and formed a tool in informing its COVID-19 Recovery Strategy.

3.2.6 The County Council also regularly undertakes organisation-wide staff surveys on priority topics (e.g. inclusion and diversity; health and wellbeing) as part of a broader programme of employee engagement through a wide range of platforms and channels. During 2021/22, staff surveys have focussed on employees' health and wellbeing during the pandemic, as well as the County Council's new ways of working once restrictions were lifted and office-based staff could attend the office again

3.2.7 Each financial year, an annual report on the Pension Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.

3.2.8 The Investment Strategy Statement is published and made available to scheme employers within three months of any amendments.

3.2.9 Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners.

3.3 Defining outcomes in terms of sustainable economic, social and environmental benefits.

3.3.1 The strategic aims set out in the *Serving Hampshire* Strategic Plan include a description of the County Council's overarching ambitions for delivering positive economic, social and environmental outcomes for Hampshire. These aims are underpinned by a series of key priorities, which reflect, and are supported by, other detailed departmental plans and strategies. Progress against the strategic aims and priorities is tracked through quarterly performance updates to the County Council's Corporate Management Team and six monthly to Cabinet. Arrangements for reporting corporate performance are set out in the County Council's Corporate Performance Management Framework. All reports to decision making bodies must also demonstrate their link to the *Serving Hampshire* Strategic Plan, as well as the results of the relevant impact assessments. Equality Impact Assessments are also required of relevant decisions, and in this year a new requirement was introduced to apply two decision-making tools to assess the carbon emissions and resilience impacts of relevant projects and decisions.

3.3.2 The new Strategic Plan 2021 – 2025 was agreed by Cabinet in July 2021 and passed by Full Council in September 2021. Alongside the new Strategic Plan, a revised corporate Performance Management Framework was agreed, which incorporates monitoring of the agreed Climate Change Strategy and the recommendations from the Hampshire 2050 Commission of Inquiry.

3.3.3 The Pension Fund Panel and Board has a fiduciary duty to ensure that investment returns are maximised for the benefit of members of the Pension Fund, but in doing so must also have due consideration to Environmental, Social and Governance (ESG) issues. The Pension Fund Panel and Board is required to produce a Responsible Investment Policy and this was updated and approved by the Board in March 2022 (subject to public consultation) and outlined the progress that had been made in particular against the Fund's carbon reduction programme and provided a commitment to the aim for its investments to be carbon neutral by 2050 in line with Government policy.

3.4 Determining the interventions necessary to optimise the achievement of the intended outcomes.

3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decisions of the County Council ensures that decisions are only made after relevant options have been weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.

3.4.2 The Director of Corporate Operations advises the Pension Fund Panel and Board and its Responsible Investment sub-committee on all Pension Fund investment and administrative matters.

3.4.3 The Pension Fund's independent adviser advises the Panel and Board on investment matters.

3.4.4 The Pension Fund Panel and Board uses the Fund's actuary and other consultants as necessary, for advice on matters when in-house expertise is not available. The Panel and Board takes advice from the actuary, the Fund's investment managers or specialist consultants or advisers as required on allocating assets and investment return targets.

3.4.5 Equality Impact Assessments (EIAs) are used throughout the organisation to assess the impact of service proposals and to inform decision making. A review group including the Head of Legal, Head of Finance, Departmental Equalities Leads and Departmental Transformation Leads was put in place to oversee the production and review of EIAs relating to SP23 proposals and to produce the cumulative EIA to understand the overall impact of savings proposals on groups with characteristics protected under the Equalities Act (2010). A new requirement for departments to assess the equality and inclusiveness of their services and develop action plans accordingly was also introduced in 2021.

3.4.6 The budget setting process is well established and Departments prioritise budgets and spending in order to achieve intended outcomes. In recent years' the budget setting process has inevitably focussed on the achievement of savings to offset the increased costs of pay and price inflation and growth in social care services, but this aims to be achieved whilst remaining true to the Council's strategic aims and objectives. This includes the consideration of the wider social value that the County Council can generate through its operations.

3.4.7 A medium-term financial strategy and three-year capital programme is updated each year together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates. The absence of a multi-year financial assessment has made financial planning difficult, but the County Council continues to plan for the medium-term using assumptions set out in the Medium-Term Financial Strategy (MTFS).

3.4.8 Risks associated with the achievement of intended outcomes are detailed in the corporate electronic Risk Register which itemises risks held at Corporate and Department level. These evaluate the effectiveness of existing control measures as well as identifying proposed mitigation. Corporate and departmental risk registers have been reviewed and updated. These risk registers are regularly reviewed by the Corporate Risk Management Board, with key risks being reported to CMT.

3.4.9 The Reading Hampshire Property Partnership Limited (RHPP) is a public-to-public partnership arrangement between Hampshire County Council (HCC) and Reading Borough Council (RBC) for the delivery of property related services. The RHPP was formally established as a limited company in April 2014 and is operated in accordance with the Companies Act 2006. Two named senior officers from each partner organisation are appointed to the roles of Directors of the RHPP and the Board of Directors meets formally twice a year. The RHPP accounts are filed with Companies House and appropriate insurance is held to cover risks. A revised annual report is being developed that will include financial reporting, progress against the RHPP business plan and partnership objectives and benefits of the arrangement and will be reported to the Executive Member for Commercial Services, Estates and Property.

3.4.10 The County Council holds a joint 999-year lease with Basingstoke and Deane Borough Council of around 820 hectares of land located to the west of Basingstoke known as Manydown. In respect of the first phase, the land north of the main Southampton to London railway referred to as Manydown North, the two Councils have entered in to two separate but related Joint Venture arrangements. The first, established between the two Councils is the Manydown Garden Communities (MCG) LLP, whilst the second known as the Manydown Development Vehicle (MDV) LLP is between the two Councils (as MGC) and the selected development partner Urban and Civic Ltd. Each JV has a regular Board meeting and various legal agreements set out the basis of the County Council's representation at each Board and the associated roles and responsibilities for each Board Director. For the MGC LLP, there is one Elected Member and 2 Senior Officer representative (including approved substitutes). For the MDV LLP, the County Council's interests (on behalf of MGC) are represented by the same 2 Senior officers, together with a third nominated Officer, again with approved substitutes. The Member and Development Agreements set out: the responsibilities of each Board; delegation policies and matters to be escalated; approval of either an Annual and/or Overarching Business Plan (including Budget); the measurement of performance against each Plan, together with the management and oversight of potential emerging risks and issues. The MGC LLP and MDV LLP accounts are separately audited and reported to Companies House. The Annual/Overarching Business Plan(s) are reported to the County Council's Executive Member for Policy and Resources for approval.

3.4.11 The governance of *Connect2Hampshire* is underpinned by the LLP Members agreement, which sets out in detail the management arrangements for the joint venture through its Board and Executive Board. The membership of these boards includes the Director of HR, OD, Communications and Engagement as one of the two LLP Board Members, as well as a further Senior Officer of the County Council as a Member of the Executive Board. This enables the County Council's interests to be fully represented within the decision making of the LLP, as well as ensuring the successful performance of the LLP to meet the County Councils broader workforce objectives. The Board's responsibilities include agreement of the annual business plan, understanding the LLPs performance against this plan, and the management and oversight of potential emerging risks and issues. The expected levels of service performance are set out within a separate Joint Accountability Statement agreed between HCC and the LLP, with performance against defined Key Performance Indicators being reviewed on a quarterly basis through meetings held between Connect2Hampshire and Senior Officers of the County Council. Clear routes of escalation exist through to HCC's Corporate Management Team, should this be required.

3.4.12 Further details of the County Council's response to the Covid 19 Crisis are set out in a series of reports to Cabinet set out in the Schedule to this Statement.

3.5 Developing the County Council's capacity including the capability of its leadership and the individuals within it

3.5.1 The relationship between Members and Officers is led by the Leader of the Council and the Chief Executive who have established a culture of mutual respect and co-operation. The role of the Chief Executive is set out in the

County Council's Constitution and is well understood by the Members of the County Council. The Protocol for Member Officer Relations also provides clear guidance for both officers and Members on how to manage their relationships effectively.

3.5.2 Following the County Council's all-out election in 2021, an innovative Member Induction Programme, supported by the cross-party Member Development Group, was delivered against the backdrop of Covid-19. This involved several virtual sessions covering key organisational topics such as local government finance, adult and children's safeguarding, education, inclusion and diversity, climate change, data protection and handling social media, together with in-person events held in line with Government's Covid-19 guidelines and e-learning to ensure both new and returning Members were inducted as soon as possible during challenging times. The established monthly Briefing Programme continues to be well received. The Council moved to virtual delivery of the Programme during 2020 which resulted in high levels of attendance due to the flexibility virtual delivery offered, and the Programme continues to be delivered in this way. The Programme has included annual corporate topics such as finance, treasury management and the County Council's workforce reporting together with regular Covid-19 updates and focusing on economic recovery and resilience from the Chief Executive and Corporate Management Team. Members also have the opportunity to participate in external training events and seminars to support upskilling and knowledge refresh.

3.5.3 Members of the Joint Pension Fund Panel and Board and officers in Corporate Services have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate.

3.5.4 A training plan for members of the Joint Pension Fund Panel and Board has been prepared, and training logs for individual members are maintained.

3.5.5 The County Council continues to regularly review the shape of its workforce against the needs of the service in the context of its capacity and capability requirements. This then informs a range of strategies, for example, recruitment, retention, operating models, ways of working and people development to provide effective leadership and deploy appropriate resources to meet the needs of services. In addition, each Department has a Workforce Strategy that aligns the strategic objectives of the services delivered with strategic workforce requirements.

3.5.6 The Annual Workforce Report continues to provide a good understanding of our people in relation to the various stages of the 'employee life-cycle' (Attract, Resource, Onboard, Develop, Reward and Recognise, Progress and Perform, Retain and Exit), and references areas of attention and further work to be undertaken to address the workforce challenges arising as a result of the pandemic.

3.5.7 The Council's Valuing Performance policy provides a framework for staff and managers to meet, discuss and set goals in line with service requirements, following which regular reviews of performance, learning and progress takes place. Staff continue to be held accountable for their own and their teams' performance and are encouraged to use the range of learning opportunities that are available across the Council.

3.5.8 The Council has a thorough management and leadership development program available both for existing leaders as well as those identified as 'high potential'. These leadership programs are underpinned by a leadership competency framework.

3.5.9 Our leadership programmes are in the process of being reviewed to take account of the changing needs of our workforce in order to ensure that they are addressing the management and leadership needs of our staff, taking particular account of the changes in our ways of working, IDW agenda, and the increasing challenge to balance service delivery and demand.

3.5.10 Organisational development is approached through a variety of means including through regular joint Corporate and Departmental Management discussions. Lessons learnt exercises are regular practiced where necessary and appropriate and are undertaken through a 'system wide' perspective. We continue to use our agreed 'organisational' principles to shape and develop areas of organisation design and development to ensure our operating models are fit for purpose over the short to medium term.

3.5.11 There is an emphasis on the need for high performance and resilience, of which health and wellbeing and continuous development are critical elements in the regular discussions between managers and staff particularly during the period of extended home working for many staff groups. The suite of resources has been further developed during the year and provides a significant range of information and support for managers and staff. Health and Wellbeing continue to be a key focus for CMT, the IDW Steering Group and Directors and their DMTs and forms part of regular discussions at team meetings across the organisation.

3.5.12 To further support our understanding of our workforce's experiences during the pandemic and to support recovery, an Inclusion and Wellbeing Survey of all staff was undertaken in May 2021, alongside the regular monthly wellbeing 'pulse' survey where 1/12th of the organisation is polled. Results of these surveys have helped inform and shape the County Council's new ways of working for office-based staff

3.5.13 The Wellbeing Task Group, chaired by the Director of Public Health and Director of HR, OD, Communications and Engagement with actions embedded within the overarching strategic Inclusion, Diversity and Wellbeing work program have continued to lead in this space alongside representatives from all Departments.

3.5.14 The County Council recognises the importance of its staff networks to supporting the inclusion and diversity of its workforce. All formal networks continue to have action plans in place, which align with and support the strategic Inclusion, Diversity and Wellbeing work programme. Of specific note during 2021/22 is the work undertaken in support of our people who classify themselves as disabled has enabled conversations across the organisation entitled 'let's talk about being disabled' in order to support individual and organisational learning and development.

3.5.15 The Corporate Management Team have also commissioned a review of the Inclusion and Diversity Strategy and Action Plan, both of which are on-going.

3.5.16 Inclusion and Diversity activity is now overseen by the Director of HR, OD, Communications and Engagement.

3.6 Managing risks and performance through robust internal control and strong public financial management.

3.6.1 The County Council's Corporate Strategy is underpinned by the Corporate Performance Management Framework, which establishes how the quality of services for users is to be measured and reviewed on a regular basis. This includes quarterly reporting of progress against the Serving Hampshire Strategic Plan. The County Council's Annual Performance Report is published on the County Council's website and includes a summary of key areas of performance, including an analysis of any major performance risks and mitigations, as well as providing an overview of sources of external validation and customer feedback. The Corporate Performance Management Framework has been revised alongside the new Strategic Plan, and has been implemented from April 2022.

3.6.2 The County Council has in place a Risk Management Strategy that is currently being developed into a longer term 2022-2025 version to be approved by Cabinet. Oversight of the Strategy is provided by the Corporate Risk Management Board, who drive forward initiatives and improvements to achieve the Strategy's aims and objectives. This includes provision of corporate guidance on risk management best practice, to support staff to manage risk effectively and consistently.

3.6.3 To further strengthen risk management arrangements a new cross departmental Health & Safety Management Group has been formed to feed directly into the Corporate Risk Management Board. The Risk Management Board continue to report on a quarterly basis to CMT, setting out the Corporate Strategic Risk Register, Department key risk updates and any broader developments, improvements or emerging risks. The Risk Management Board submit an annual report to the Audit Committee who are responsible for considering the effect of the County Council's risk management arrangements and having oversight of the Corporate Strategic Risk register. The corporate guidance for staff clearly sets out the organisation's governance structure for managing risk effectively, including roles and responsibilities.

3.6.4 Key operational and strategic risks (including those related to Covid-19) at both department and corporate level are actively managed and monitored by a named Risk Owner and Risk Control Manager. These risks are recorded in the Corporate Risk Management System and must have review dates and state the governance structure that is providing adequate monitoring and oversight of risk controls. All risks on the Corporate Strategic Risk Register are also reviewed on an annual basis by the Risk Management Board with the relevant Risk Owner/Control Manager.

3.6.5 A comprehensive Information Governance Framework is in place, overseen by the Data Protection Officer, with further oversight by the Risk Management Board, which includes Senior Information Risk Officers representing each Department.

3.6.6 The County Council regularly monitors its IT systems in the context of cyber security and in recognition of the ever-changing risks in this area, a programme of work has been undertaken to strengthen and improve our cyber security arrangements going forward.

3.6.7 The Audit Plan 2021-22 was developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's key risks and objectives, this includes a periodic review of the County Council's risk management processes.

3.6.8 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.

3.6.9 The internal audit plan incorporates provision for both proactive and reactive counter fraud and corruption work, which is underpinned by an embedded Anti-Fraud & Corruption Strategy and Policy and Anti Bribery Act Policy.

3.6.10 The delivery of the internal audit plan enables the Chief Internal Auditor to provide an annual report providing an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control which is reported to Senior Management and the Audit Committee.

3.6.11 The County Council's Audit Committee is well established and reports to Full Council. Members of the Audit Committee have no executive responsibility for the management of the organisation, thus ensuring that they are sufficiently independent to scrutinise and challenge matters brought to their attention.

3.6.12 The Audit Committee has a clear 'Terms of Reference' providing an effective source of scrutiny, challenge and assurance regarding the arrangements for managing risk and maintaining an effective control environment.

3.6.13 The County Council has a well-developed and effective scrutiny function, the structure of which is formalised through the County Council's Constitution. A pre-scrutiny approach enables Members to be engaged early in the process to ensure they can robustly challenge the Council's decision-making, to participate in policy review and development, and monitor the performance of the County Council as a whole. A wide range of policy topics have been scrutinised in line with the organisation's strategic objectives including in-depth scrutiny by way of task and finish activity. With the continuing Covid-19 situation, the Policy and Resources Overview and Select Committee has considered the financial impact of Covid-19 on the Council, economic recovery and resilience. The scrutiny function is supported by experienced officers in Democratic and Member Services together with input from specialist officers in the service departments.

3.6.14 The County Council has strong financial management arrangements at both the strategic and operational level and consistently obtains unqualified opinions for its annual accounts and value for money assessment. The Section 151 Officer is a member of the Corporate Management team and all formal financial decision making has the benefit of the advice and review of the Chief Financial Officer or his representative.

3.6.15 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.

3.6.16 Financial management in key risk areas across the County Council focusses on activity and performance management alongside the budget management processes and the financial management framework throughout all tiers of the organisation is appropriately advised and supported by the Finance Department, with a particular focus on the change management programmes that have been a feature of Departmental activity for many years. A framework for the roles and responsibilities of budget holders and their interaction with the Finance Department has been rolled out across non-social care departments and are proving effective in improving the financial accountability and expectations of budget managers. This programme has been extended and will continue over the next year within the social care departments.

3.6.17 The new CIPFA Financial Management (FM) Code was formally adopted across local government from the 2021/22 financial year. The FM Code sets out the six principles of good financial management, which it then translates into a list of financial management standards which local authorities should test their conformity against. The County Council has undertaken an evidence backed assessment of its compliance with all of the financial management standards in the Code. Based on this, the County Council has ascertained that it is compliant with the Code. Although compliant the County Council will still always actively seek to make further developments and improvements as opportunities are identified for example through risk reviews and performance management.

3.6.18 Following the outbreak of Covid-19, the County Council has been closely monitoring all aspects of the financial impact of the crisis. During 2021-2022 Directors have continued to review the impact on a monthly basis. Appropriate reporting has developed as the pandemic progressed and settled into quarterly reporting to the Corporate Management Team and on to Cabinet at regular intervals. The County Council has continued to report pandemic costs and losses to MHCLG/DLUHC and has ensured appropriate claiming and application of relevant Government grant

3.6.19 Financial resilience within the County Council has remained strong throughout the pandemic, and funding has been identified to supplement Government grant to meet the one-off costs and losses of Covid-19, expected to continue until 2023-2024, without significantly impacting on the wider financial strategy.

3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.

3.7.1 The report writing guide, protocols and templates referred to in the Code of Corporate Governance and the involvement of senior departmental officers, legal officers and finance officers ensures that public reports are written in a clear and accessible way with sufficient information to enable members of the public to formulate informed opinions on the matters for decision.

3.7.2 The Corporate Performance Management Framework provides a transparent cycle of reporting on core performance metrics to the Corporate Management Team and Cabinet. Corporate performance reports are published online and are accessible to staff, partners and the public.

3.7.3 The 'Internal Audit Charter' is presented annually for approval by the Audit Committee. The Charter makes provision that 'Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (i.e. the Audit Committee).'

3.7.4 The on-going work of internal audit is presented through a quarterly progress report to Audit Committee providing an overview of service performance; delivery against the plan; and progress made by the organisation in the implementation of management actions agreed to mitigate risks identified through internal audit work.

3.7.5 Representatives of External Audit routinely attend Audit Committee meetings and present all External Audit reports. Any recommendations for corrective action detailed within External Audit reports are highlighted to Members who will track through to implementation. This is achieved through the clear and concise nature of the minutes to each meeting couple with the inclusion of any overdue recommendations within the internal audit progress report.

3.7.6 The internal audit plan includes provision to review the County Council's approach to governance, risk and controls for partnership working. Such reviews are formally reported through the Audit Committee with any significant issues highlighted accordingly.

3.7.7 Where appropriate internal audit will gain assurances from third parties to contribute to their overall assurance opinion.

3.7.8 Financial reporting complies with relevant statute, codes and good practice guidance and financial and performance information are reported consistently throughout the year alongside each other. Where relevant and appropriate performance comparisons are made to other organisations.

4 Obtain assurances on the effectiveness of key controls

4.1 Appropriate assurance statements are received from designated internal and external assurance providers.

4.2 Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and departmental level. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and carries out tests to confirm the level of compliance. Together the results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed.

4.3 This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

4.4 External sources of assurance include the annual opinion and value for money conclusion by external auditors, and statutory inspections of adults' social care services, and children's services. These reports are subject to consideration by senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.

4.5 External sources of validation are being increasingly used to inform assessment of the organisation's performance as a core part of the Corporate Performance Framework.

5 Evaluate assurances and identify gaps in control/assurance

5.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls.

5.2 The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

5.3 The Head of Law and Governance and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.

5.4 One of the key elements of the Corporate Governance regime and the production of the Annual Governance Statement is the methodology applied to obtain the necessary assurance. This has included:

- a self-assessment assurance statement being completed every year by all Chief Officers giving assurance about the governance arrangements in their Department.
- consultation with other relevant officers throughout the County Council.

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5.5 In line with the Internal Audit Charter approved by the Audit Committee in July 2021 and which is available on the County Council's website, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.

5.6 The assurance statements cover a range of Corporate Governance and performance issues which refer to the existence, knowledge and application within departments of governance policies generally.

5.7 The Internal Audit Team's work forms the basis of a report to the relevant Chief Officer or Key Corporate Manager for any follow up work necessary, and feeds into this Annual Governance Statement.

5.8 Departmental Corporate Governance assurance statements were sent out to Departments in early 2022.

6 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance.

6.1 The longer-term Risk Management Strategy 2022-25 and Risk Register will be taken for approval by Cabinet in mid-2022 following endorsement by CMT. The Risk Management Board will drive forward the Strategy aims and objectives, with particular focus on improvements to the corporate risk management system to incorporate renewed control effectiveness descriptions and evidence that measures are sufficient. **Action Owner Patrick Blogg**

6.2 A training programme to further develop staff and managers to manage risk effectively, will be developed. This will include specific session with the Audit Committee to work through in more detail the corporate risk management processes and governance. **Action Owner Patrick Blogg**

6.3 ETE will continue to test its Business Continuity processes and procedures through a series of regularly planned exercises, involving relevant operational services and the Department Management Team. Learning from these exercises, alongside actual events such responding to significant weather events, will be embedded into revised processes and procedures as necessary. **Action Owner Mike Bridgeman**

6.4 The CareDirector Implementation will support the improvement in the recording of client data through:

- Data migrated to the new system will be subject to data validation rules to ensure the records are in line with Data Retention rules
- As part of the system training staff will receive reminders about GDPR and best recording practice, like good searching techniques to avoid duplicates, data quality, and their responsibilities. All CDir users will be required to sign a new Form of Undertaking via the LMS which will record their knowledge and adherence to Data Protection law and HCC policy
- The CareDirector System includes functionality for supporting greater data quality such as:

System setting **RequiredPersonSearches** – this dictates the number of person searches that must be completed before a new person record can be created.

Duplicate Detection rules – These are applied on record creation and will warn users if they might be about to create a duplicate.

Merge records – there is functionality to merge records if duplicates are detected by the scheduled job.

The CareDirector Go-live date is currently being replanned for implementation in 2023. **Action Owner Sarah Snowdon**.

7 There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored.

In response to the Action Plan identified in the 2020/21 Annual Governance Statement: -

7.1 The robust Risk Management Framework has been strengthened further through the embedding of key processes and systems, and the introduction of risk management guidance for all staff. All key department and corporate strategic risks have been transferred into new Risk Management System and are now actively managed and monitored. Regular and proactive monitoring continues to provide reassurance through the corporate strategic risk review cycle, departmental DMT reviews of key risks and the quarterly reporting cycle to CMT.

7.2 Whilst no specific weaknesses have been identified, a programme of work has been undertaken to strengthen the County Council's cyber security arrangements to ensure they keep pace with the ever-changing threat of cyber-attack.

7.3 The County Council has published its new Strategic Plan, setting out its strategic priorities for the period 2021-2025, and alongside this. the current Performance Management Framework has been updated and has been implemented from April 2022.

7.4 To ensure health and safety risks are sufficiently represented at a corporate level, a new corporate Health and Safety Management Group has been set up. Along with the Resilience Management Group and the Information Governance Steering Group, all three subgroups feed directly into the corporate Risk Management Board.

7.5 The EIA guidance has been updated and a new tool was developed and implemented in May 2021.

7.6 The pandemic has caused an increase in demand which is likely to have had a negative impact on recording. All staff have access to personal computers for portable use to ensure access to recording despite working from home, with options for staff to work from the office should it be needed. There is a renewed focus upon improving recording in 22/ 23 with the development of a new recording system. The new design is incorporating improvements in access and ease of recording. This is likely to be introduced later in 2022/ early 2023. Training on proportionate recording is being prioritised. There is a particular focus on recording of safeguarding through management meetings and an increase in detailed safeguarding training being provided which includes recording. Safeguarding meetings are now recorded to ensure timely and accurate recording. A quality assurance framework has been introduced with managers auditing the quality of recording regularly. Excellent practice validation standards have been introduced which incentivise practitioners to ensure good practice in this area. The social care practice manual is being reviewed to ensure that the best guidance is available to staff on recording.

7.7 The Action Plan for 2021 identified a two-phase corporate approach to Contract Management training. This is designed for non-professional Contract Managers as a prerequisite to acquiring contract management responsibilities, to ensure consistency of approach. The first phase has now been launched in the form of an online training module, providing Managers with an overview of the fundamentals of managing contracts and outlining their responsibilities. The second phase which will include an assurance framework and checklist, will be developed to help departments to understand if their contracts are being managed effectively and thereby delivering their intended outcomes, is due to be finalised and launched in the second half of 2022. The combination of these two phases will ensure that there is effective, compliant and proactive management of contracts within Departments.

Declaration

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are set out in this Statement.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:	Signed:
Carolyn Williamson	*Councillor Rob Humby*
Chief Executive	Leader of the Council
Date: 6 October 2022	Date: 11 October 2022

Schedule-Covid 19 Update Reports

Report to Cabinet 13 July 2021

Report to Cabinet 12 October 2021

Report to Cabinet 7 December 2021

Report to Cabinet 8 February 2022

Report to Cabinet 15 March 2022

Glossary

Academies
Publicly funded independent schools, free from local authority control. Freedoms held by academies include the ability to set their own pay and conditions for staff, freedoms around the delivery of the curriculum, and the ability to change the lengths of terms and school days. The income, expenditure and assets of academies within Hampshire do not form part of the Council's accounts.

Accruals basis
Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or paid.

Actuary
A person or firm who analyses the assets and future liabilities of a pension fund and calculates the level of contributions needed to keep it solvent.

Admitted bodies
These are employers who have been allowed into the Hampshire Pension Fund at the County Council's discretion.

Alternative investments
These are less traditional investments where risks can be greater but potential returns higher over the long-term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

Amortisation
The process of writing down the cost of an asset or liability through depreciation or repayment of principle over a suitable period of time.

Assets held for sale
Assets that the Council intends to sell within the next year and are actively marketed as such.

Additional voluntary contributions (AVCs)
Additional voluntary contributions are paid by a contributor who decides to supplement his or her pension by paying extra contributions to the Scheme's AVC providers (Zurich and Equitable Life).

Budget requirement
Planned spending to be met from council tax, general Government grants and business rates.

Capital adjustment account
An account that reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

Capital expenditure
Expenditure on the acquisition or creation of a fixed asset or expenditure that adds to and does not merely maintain the value of an existing fixed asset.

Capital receipt
Proceeds from the sale of capital assets (e.g. land, buildings and equipment).

Chartered Institute of Public Finance and Accountancy (CIPFA)
The professional accountancy body for public services which recommends accounting practice for the preparation of local authority accounts.

Community asset
An asset that the Council intends to hold forever, that has no determinable useful life, and that may have restrictions on its disposal. An example of a community asset is parkland.

Comprehensive Income and Expenditure Statement (CIES)
Statement that shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

Contingent asset
A potential asset that is uncertain because it depends on the outcome of a future event.

Contingent liability
A potential liability that is uncertain because it depends on the outcome of a future event.

Council tax
A domestic property tax based on capital values with a personal element (a 25% discount for single-adult households). Each property is allocated to one of eight tax bands according to its capital value.

Creditor
An individual or body to which the Council owes money at the Balance Sheet date.

Current asset
An asset that is realisable or disposable within less than one year without disruption to services.

Current liability
A liability that is due to be settled within one year.

Current service costs
The increase in the present value of pension liabilities expected to arise from employee service in the current period.

Custodian
A bank that looks after Pension Fund investments, implements investment transactions as instructed by the Fund’s managers and provides reporting, performance and administrative services to the Fund.

Debtor
An individual or body that owes money to the Council at the Balance Sheet date.

Dedicated Schools Grant (DSG)
A Government grant that can only be used to fund expenditure within the schools’ budget.

Deferred liability
An amount owed by the Council that will be repaid over a significant period of time. For example, the Council holds a deferred liability to pay for assets constructed as part of the waste and street lighting PFI contracts, which will reduce over the life of the assets.

Defined benefit pension scheme
A pension scheme in which a pensioner’s benefits are specified, usually relating to their length of service and either final salary or average earnings.

Deposit
Receipt held that is repayable in prescribed circumstances.

Depreciated historical cost
The valuation of fixed assets at their original cost less depreciation charged to date.

Depreciated replacement cost
Relating to fixed assets, the current replacement costs adjusted for depreciation. This method of valuation is used when it is not practical to estimate the open market value for the existing use of a specialised property.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Developers' contribution
Developers may be required to provide contributions for building infrastructure. These may result from the Community Infrastructure Levy, section 106 and section 278 planning obligations, or planning conditions.

Discretionary increase in pension payments
This increase arises when an employer agrees to the early retirement of an employee other than for reasons of ill health and agrees to pay pension benefits based on more years than he or she actually worked.

Dividends
Income to the Pension Fund on its holdings of UK and overseas shares.

Earmarked reserve
See Reserve.

Equities
Shares in UK and overseas companies.

Exceptional item
An item identified separately in the accounts because of its exceptional nature to make sure the presentation of the accounts is fair.

Expected credit loss
An estimate of the losses an authority expects it will incur from financial instruments.

Expected loss allowance
The Council is unlikely to recover some debts because something has happened since the debt was raised. An assessment of the reduction in recoverable debt is made both individually (for individually significant debts) and collectively.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Finance lease
Under this type of lease, the risks and rewards of ownership of the leased goods transfer to the lessee.

Financial instruments
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Fixed asset
An asset that yields benefits to the local authority and the services it provides for a period of more than one year.

Foundation schools
A category of school that receives its funding from the County Council, but are run by their own governing body, which employs the staff and sets the admissions criteria. Land and buildings are usually owned by the governing body or a charitable foundation

General Fund
The accumulated credit balance on the General Fund. It is the excess of income over expenditure in the Income and Expenditure Account after adjusting for movements to and from reserves and other non-cash items. This balance is needed as a cushion against unforeseen expenditure.

Gross book value (GBV)
The original or revalued cost of an asset before the deduction of depreciation.

Gross expenditure
The total cost of providing the Council's services before deducting income from Government grants, or fees and charges for services.

Hedge fund
A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

Heritage assets
Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture. The principal heritage assets owned by the Authority are its museum collections, archives collection and a small number of historic buildings and archaeological sites.

Historical cost
The amount originally paid for a fixed asset.

Impairment loss
A loss arising from an event that significantly reduces an asset's value, such as physical damage or a fall in market value.

Infrastructure assets
Fixed assets that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible assets
Assets that do not have physical substance but are identifiable and controlled by the Council and bring benefits to the Council for more than one year, such as computer software.

Internal trading account
A service within the Council that operates on a trading basis with other parts of the Council.

International Financial Reporting Standards (IFRS)
International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts.

Inventories
Goods that are acquired in advance of their use in the provision of services or their resale. At the year-end inventories are a current asset in the balance sheet and they will be charged to the CIES in the year they are consumed or sold.

Investment property
Property (land or buildings) that are held (by the owner or by the lessee under a finance lease) to earn rental income or for capital appreciation or both.

Lessee
The party that leases an asset that is owned by another party.

Lessor
The owner of an asset which is leased to another party.

Local Government Pension Scheme (LGPS)
The LGPS is a nationwide scheme for employees working in local government or working for other employers participating in the Scheme.

Long-term asset
An asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

Long-term borrowing
A loan repayable in more than one year from the Balance Sheet date.

Long-term debtor
An individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

Minimum revenue provision (MRP)
The minimum amount (as specified in statute) which must be charged to the CIES each year and set aside as a provision for repaying external loans and meeting other credit liabilities.

Net assets
The amount by which assets exceed liabilities (same as net worth).

Net assets statement
A statement showing the net assets of the Pension Fund.

Net book value (NBV)
The value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

Net current liabilities
The amount by which current liabilities exceed current assets.

Net worth
The amount by which assets exceed liabilities (same as net assets).

Non-ringfenced government grants
Amounts received from central Government towards funding the Council's activities that are not required to be spent on a particular service.

Operating lease
Under this type of lease, the risks and rewards of ownership of the leased goods remain with the lessor.

Operational asset
A fixed asset held and occupied, used or consumed by the Council in the direct delivery of services.

Past service cost
For a defined benefit pension scheme, the increase in the present value of the scheme's liabilities related to employee service from prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Payment in advance
A payment for a service due to be received in a future financial year.

Pooled budget
Partners contribute a set amount of money to form a separate budget. The purpose and scope of the budget is agreed at the outset and then used to pay for relevant services and activities.

Precept
The demand made by the County Council on the collection funds maintained by the district councils for council taxpayers' contribution to its services.

Private equity
Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e. not easily turned into cash) and higher-risk investments that should provide high returns over the long-term.

Private finance initiative (PFI)
Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

Projected unit method
One of the common methods used by actuaries to calculate a contribution rate to the LGPS, which is usually expressed as a percentage of the members' pensionable pay.

Provisions
An estimated figure within the accounts for liabilities that are known to exist but cannot be measured accurately.

Public Works Loan Board (PWLB)
A central government agency that provides loans to local authorities at a slightly higher rate than the Government is able to borrow. In most cases, the interest rates offered are lower than local authorities can achieve in the open market.

Receipt in advance
A receipt that is attributable to a future financial year.

Related party
An organisation, body or individual that has the potential to control or significantly influence the Council, or to be controlled or influenced by the Council.

Reserve
The Council’s reserves fall into two categories. The ‘unearmarked’ reserve is the balance on the General Fund. An ‘earmarked’ reserve is an amount set aside in the Council’s accounts for specific purposes.

Revaluation reserve
Records unrealised net gains from asset revaluations made after 1 April 2007.

Revenue contributions to capital
The use of revenue funds to finance capital expenditure.

Revenue expenditure
The operating costs incurred by the Council during the financial year in providing its day-to-day services. It is distinct from capital expenditure on projects that benefit the Council over a period of more than one financial year.

Revenue expenditure funded from capital under statute (REFCUS)
Expenditure that is classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the County Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

Scheduled bodies
These are organisations that have a right to be in the LGPS.

Service concession
Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

SAPS
Self administered pension scheme

SETS
Stock Exchange Trading Service – a service provided by the Stock Exchange, enabling shares to be bought and sold electronically.

Short-term investments
An investment that is readily realisable within one year.

Specific grants
Central Government grants to finance a particular service.

Straight-line basis
Dividing a sum equally between several years.

Surplus assets
Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. These are assets that do not meet the criteria to be classified as either investment property or assets held for sale.

Transfer value
The value of an employee’s pension rights, which can be transferred from one pension scheme to another.

Transferred debt
Debt serviced by bodies that are independent of the Council following the transfer of services formerly provided by the Council.

Trust fund
A fund set up under a trust deed in which the Council is a trustee.

Useful life
The period over which the Council will benefit from the use of a fixed asset.

Voluntary aided schools (VA schools)
Mainly religious or 'faith' schools, although anyone can apply for a place. As with foundation schools, the governing body employs the staff and sets the admissions criteria.

Voluntary controlled schools (VC schools)
Similar to voluntary aided schools, but are run by the local authority. As with community schools, the local authority employs the school's staff and sets the admissions criteria.

Write-off
Elimination of an asset or liability over a defined period, usually by means of charging or crediting the CIES.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE COUNTY COUNCIL

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE COUNTY COUNCIL

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	27 September 2023
Title:	Internal Audit Annual Report & Opinion 2022-23
Report From:	Deputy Chief Executive, and Director of Corporate Operations

Contact name: Neil Pitman

Tel: 07719 417233 **Email:** Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditors opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2023

Recommendation(s)

2. That the Audit Committee receives and considers the Annual Internal Audit Report & Opinion 2022-23 as attached

Contextual information

1. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.

2. The Annual Report for 2022/23 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31 March 2023.

3. The Audit Committee’s attention is drawn to the following points:

- Internal audit was compliant with the Public Sector Internal Audit Standards during 2022-23.

- The revised internal audit plan for 2022/23 has been substantially delivered.

- The County Council’s framework of governance, risk management and management control is considered to be ‘Reasonable’ and audit testing has demonstrated controls to be working in practice.

4. Internal audit enjoy an open and honest working relationship with the Council. Planning discussions and the risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved. The maturity of this relationship and the Council’s effective use of internal audit has assisted in identifying and putting in place action to mitigate weaknesses impacting on organisational governance, risk, and control over the 2022-23 financial year.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title Internal Audit Plan	Date 28 September 2022
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 within this report

Southern Internal Audit Partnership

Assurance through excellence and innovation

HAMPSHIRE COUNTY COUNCIL

Annual Internal Audit Report & Opinion 2022-2023

Prepared by: **Neil Pitman, Head of Partnership**

August 2023

Contents

1. Role of Internal Audit

The Council is required by the Accounts and Audit (England) Regulations 2015, to

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

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.

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

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

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

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

2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

As the Chief Internal Auditor, I review the approach to each audit, considering the following key points:

- Level of assurance required.
- Significance of the objectives under review to the organisations' success.
- Risks inherent in the achievement of objectives.
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

The Southern Internal Audit Partnership (SIAP) maintain an agile approach to audit, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments of our clients, with the necessity to provide comprehensive, compliant and value adding assurance.

Working practices have been reviewed, modified and agreed with all partners and we have sought to optimise the use of virtual technologies to communicate with key contacts and in completion of our fieldwork. However, the need for site visits to complete elements of testing continues to be assessed and agreed on a case-by-case basis.

3. Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council activities and to support the preparation of the Annual Governance Statement. Work has been planned and performed to obtain sufficient evidence to provide reasonable assurance that the internal control system is operating effectively.

The 2022-23 internal audit plan was considered by the Audit Committee at its meeting in September 2022. The plan was informed by internal audit's own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation. The plan has remained fluid throughout the year to maintain an effective focus and ensure that it continues to provide assurance, as required, over new or emerging challenges and risks that management need to consider, manage, and mitigate.

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

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

4. Internal Audit Opinion

As Chief Internal Auditor, I am responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform their annual governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisations' framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of the Council's audit need that has been covered within the period.

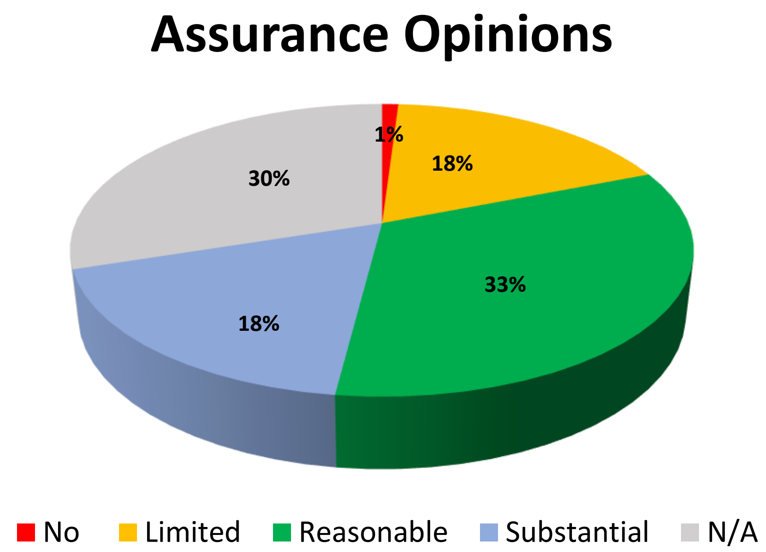
We enjoy an open and honest working relationship with the Council. Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved. I feel that the maturity of this relationship and the Council's effective use of internal audit has assisted in identifying and putting in place action to mitigate weaknesses impacting on organisational governance, risk, and control over the 2022-23 financial year.

Annual Internal Audit Opinion 2022-23
I am satisfied that sufficient assurance work has been carried out to allow me to form a conclusion on the adequacy and effectiveness of the internal control environment. In my opinion frameworks of governance, risk management and management control are **reasonable** and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

5. Governance, Risk Management & Control – Overview & Key Observations

Assurance opinions for 2022-23 reviews

Significant findings from our reviews have been reported to the Audit Committee throughout the year and a summary of the assurance opinions is outlined below.



**N/A relates to mandatory reviews such as grant certifications and those areas were outcomes resulted in a Position Statement*

Governance

Governance arrangements are considered during the planning and scoping of each review and in most cases, the scope of our work includes overview of:

- the governance structure in place, including respective roles, responsibilities, and reporting arrangements.
- relevant policies and procedures to ensure that they are in line with requirements, regularly reviewed, approved, and appropriately publicised and accessible to officers and staff.

In addition, during 2022-23 we undertook reviews of the Annual Governance Statement and Equality Impact Assessments each of which concluded in a reasonable assurance opinion.

The review of the Annual Governance Statement concluded that the overall framework for the preparation of the AGS (facilitated by the Head of Legal Services), is sufficiently robust to ensure its accuracy, currency and timely completion. The AGS had been prepared in collaboration with Directors and key officers across all areas of the Council and the comments received through the completion of Statements of Assurance, updates on the governance framework and previous action plans were reflected in the draft AGS.

Based on the work completed during the year and observations through our attendance at a variety of management and governance meetings, in our opinion the governance frameworks in place across the Council are robust, fit for purpose and subject to regular review. There is also appropriate reporting to the Audit Committee to provide the opportunity for independent consideration and challenge including the in-year update and review of the Annual Governance Statement.

Risk management

We last reviewed risk management arrangements in the Council in 2021/22 which resulted in a reasonable assurance opinion. The evidence obtained during the review demonstrated that risk management arrangements were sound, documented and embedded within the Council.

In accordance with the constitution, the Audit Committee play a key role *'to consider the effect of the County Council's risk management arrangements'*. This has been supported through the Committees overview of the Risk Management Update report (December 2022).

The risk register is a key document that is taken into account during the development of our risk based internal audit plan. The information in the risk register is taken into account when scoping each review in detail to ensure that our work is appropriately focussed.

Control

In general, internal audit work found there to be a sound control environment in place across the majority of review areas included in the 2022-23 plan that were working effectively to support the delivery of corporate objectives.

We generally found officers and staff to be aware of the importance of effective control frameworks, and open to our suggestion for improvements or enhancements where needed. Management actions agreed as a result of each review are monitored to completion to ensure that the identified risks and issues are addressed. The key areas of challenge identified or confirmed through our work are outlined below:

Care Charging - No

Hampshire County Council maintain their own suite of residential and nursing homes which complement and add to market provision. Funding for these beds can be through HCC, Self-funding, NHS or Other Local Authorities (OLA). This audit was requested to provide assurance that beds within HCC Care which should be funded by the NHS or another Local Authority, are in fact being charged for and at the correct rate.

The review found there to be no documented process or procedure in place for the provision of HCC Care beds to an OLA or NHS funded client or how these would be invoiced for.

There was no central list of OLA or NHS funded clients maintained for HCC Care homes. HCC Care homes themselves were also unable to provide accurate details of who within their care is/should be funded by the NHS or OLA. Additionally, there was no reconciliation carried out to confirm that income was being received for every client within each HCC Care home.

Consequently, we could provide no assurance that income due for care provision that should be funded by the NHS or Other Local Authority was known and collected by HCC.

A wider ranging care charging audit has been included in the audit plan for 2023/24 which will include those who are funded by other means.

Independent Non-Maintained Special Schools - Limited

INMSS account for 750+ cases where children have Educational Health Care Plans (EHCPs) and where their needs are accommodated for in the independent sector equating to overall annual costs on INMSS in the region of £55m (excluding travel costs). The focus of the audit was to review a sample of placements to assess whether the Authority were attaining value for money in the placement of children into specialist school provision.

Whilst it remains a statutory duty of HCC, the responsibility for reviewing individual EHCPs is currently delegated to individual schools. The INMSS team's task is to monitor EHCPs, identify those coming up for review, track that the review takes place, and that changes relating to the needs of the Children & Young People (CYP) are accounted for as appropriate and to ensure this process is carried out in line with legislation. However, rather than an annual review of all INMSS EHCPs, the teams EHCP reviews, led by SEN, are completed using a risk-based approach. Information around the number of EHCPs reviewed on this risk assessed basis is not freely available and therefore the service is unable to determine, out of all the EHCPs which are in place, whether the interventions in place remain appropriate to meet the needs of the CYP and the potential cost impact around those not assessed on a fuller basis.

Individual Placement Agreements (IPA) detailing the agreed provision were incomplete, with approx. 50% of those tested only available as draft, or unsigned. Of all IPAs tested, clarity of information in terms of costing was limited.

Positively a temporary resource was put in place at the time of the audit to ensure that costing detail accounted for within INMSS package approvals remained appropriate as per the requirements of CYP, aligns with EHCPs and identifies instances where cost avoidance by suppliers might be present. Cost avoidance identified by this post at the time of the audit totalled approx. £1.3m. At their meeting on 14th December 2022, Schools Forum agreed to the continuation of, and increased investment, to support the quality assurance of INMSS places and alternative provision.

Contingency Planning (Adults) - Limited

Contingency Plans are developed to ensure that appropriate arrangements are in place for clients continued care in an emergency. The Authority has a statutory duty to consider Contingency Plans under the Care Act (2014).

The directorates Social Care Practice Manual (SCPM) was found to detail the expectations relating to contingency planning and contained links to other relevant guidance. This manual was available to all staff on the intranet.

From our review of an AIS report covering the period between 1 January 2021 and 6 December 2021 we found a total of 30,578 clients. Of these, 22,262 (72.8%) did not have a contingency plan recorded within their care and support plan on AIS in line with the SCPM to enable ease of access should there be a requirement to enact the plan. It should be highlighted however, that for a sample examined in greater detail, the care and support plan was later located elsewhere in AIS.

Further to this, detailed analysis provided from the Practice Excellence Manager as part of the Quality Assurance Framework (QAF) confirmed that contingency plans were inconsistently recorded in AIS. For 355 clients' records reviewed as part of the QAF, for the 12 months up until 19th April 2022, it was found that 173 clients had a contingency plan in their assessment only, and for 66 clients there was no contingency plan in their support plan or assessment.

Review of 20 contingency plans recorded within client care and support plans and/or assessments found that the level of detail recorded varied and some sections, as defined within the Social Care Practice Manual, had not been completed.

Management of Legionella - Limited

The Health and Safety Corporate Procedure for Legionella (December 2022) were found to provide clarity on how risks associated with Legionella in Hampshire County Council properties are managed and intranet / SharePoint pages provided comprehensive and accessible training and guidance materials. Additionally, the biennial reports issued by the Head of Profession, to Departmental Management Teams, include an update on issues relating to the management of Legionella.

A monthly report is produced listing all maintenance checks that have failed or have not been completed and are therefore overdue. Each failure on the list is allocated to an officer within Property Services for review, investigation and rectification. The expectation is that all failures will be reviewed within the reporting month, however, discussions with officers allocated with these failures confirmed that target timeframes are not being met. There are informal mechanisms in place for reviewing delays, however, outcomes and the extent of backlogs are not being formally reported on. We were advised that it is not currently possible to report on the total number of outstanding failed or overdue checks.

The Health and Safety Corporate Procedures for Legionella (dated December 2022) state that the training should be completed annually. There are two online e-learning training courses available to those involved in the management of legionella which are accessible via Learning Zone (Part 1: Introduction Course and Part: 2 Specific Roles and Responsibilities). It was evident from the audit that not all relevant officers had completed both e-learning courses and there was inconsistency in refresher training occurring on an annual basis.

School Thematic(s) – Government Grants / Procurement & CSO / Income Generation - Limited

Government Grants

This review focused on the allocation and payment of the DWP Winter and Household Support Grants made to schools to provide food vouchers to support eligible families.

Testing found that 17 of 20 schools sampled distributed funding to children and families identified as needing additional support, in addition to those receiving Free School Meals (FSMs). Of those, four used the EDDIE system as per the guidance within the school communication at the start of the scheme. 13 schools used alternative means, increasing the risk that not all children listed on the EDDIE system would have been identified and provided / offered the appropriate support. For the remaining three schools, we were advised that food vouchers were not offered to families identified as needing additional support.

Reconciliation of grant funding received was not routinely carried out by all schools in our sample. This has the potential to create difficulty for schools in terms of their assurance that funds received were sufficient for the intended purpose, or that it covered their obligations.

Procurement & CSO (DRAFT)

The purpose of this audit was to carry out a review on procurement processes, compliance with Contract Standing Orders (CSOs), and recording of Related Party Transactions (RPTs).

We found that finance/administrative staff were not always aware of the CSOs and the process to be followed. Further to this, we found that schools were not routinely obtaining three written quotations for procurements in accordance with CSO guidelines.

34% of sampled purchase orders tested across schools were found to be raised after the date of invoice and therefore some goods had already been received prior to raising the order and approval of spend.

Income Generation (DRAF FINAL)

For the 15 schools reviewed, decisions regarding entering into a new activity were made either via the Headteacher or the Governing Body, however, 33% of schools sampled did not have any supporting guidance or policies around the decision-making process for income generating activities, such as what type of activity could be considered, who should approve it and what due diligence is required. It was further found that a majority of the schools sampled did not submit business cases to the school governors for approval when putting forward the discussions for a new income generating activity.

A majority of schools sampled were found to use third parties to provide activities on the premises, however, only three were found to have appropriate contracts or agreements in place.

Swanwick Lodge - Limited

Swanwick Lodge is a secure residential care unit providing specialist services to young people aged between 10 and 17. The purpose of the audit was to review the effectiveness of the processes in place at Swanwick Lodge around the recruitment and retention of staff, use of agency staff and the current charging model.

Review of expenditure on agency staff highlighted significant spend with one supplier that was not part of a framework nor supported by a contractual agreement.

Whilst there was no evidence through testing to suggest any breaches had occurred, records retained did not clearly identify total hours worked (including overtime) to ensure working time directives were not exceeded.

Audit testing found that a small sample of invoices to other local authorities contained a level of detail falling outside of requirements of the Data Protection Regulations.

Positively, a new operating model for Swanwick Lodge, approved by CSDMT in April 2022, has been produced based on a review of costs and income which enables the recovery of all costs associated with caring for residents and provides a clearer process for managing occupancy safely and appropriately.

Direct Payments – Adults (DRAFT) - Limited

As at May 2023 there were 2,312 Direct Payment (DP) provisions. Detailed examination of 10 DP clients' records and found:

- one agreement could not be found
- five agreements were dated after the start of the DP.
- evidence of approval (by RAG, SPOG or Team Manager) for three clients could not be located prior to the commencement of the DP.
- reviews were not routinely being undertaken in line with the SCPM. For those that had reviews there was not always evidence on the client's file recording whether the DP was discussed and whether it was meeting the client's needs.

The SCPM requires DPs in excess of 14 hours a week to be paid into a dedicated bank account. The bank account form has a section to confirm if the bank account is a dedicated account or not, however for our sample we were not routinely able to locate this form or that the relevant section(s) had been completed.

Testing was undertaken to ensure client records showed evidence of mental capacity and if not, that an authorised person had been identified. We found that there was not always adequate supporting documentation for clients where mental health or physical health concerns had been identified.

DPs are central government's preferred method for clients to meet their assessed care and support needs. We examined the records of six clients not in receipt of DPs to ensure that their records contained evidence of DP discussions and why the client was not in receipt of a DP. There was no record of DP discussions on any of the six client records examined.

Training Attendance - Limited

AHC Learning and Development hold Learning Pathways for Practice and Provider Services roles, detailing the induction and essential, recommended and refresher training requirements for each role.

The audit confirmed that training pathways are all easily available on the AHC intranet, and staff are reminded to undertake training via monthly training flyers and weekly Team Briefs and there are also separate Managers Briefs to remind Managers of their role for staff training.

However, whilst we were informed the training pathways are up to date, testing has highlighted the training pathways contain courses that could not be found on the Learning Zone, as they are no longer run (albeit we were advised that the content is covered within other courses).

The Training Team do not routinely monitor and report on individual staff members' outstanding training, so there are no overall section or departmental completion percentage rates providing assurance to management that staff have completed all required induction and essential courses, along with recommended courses. Audit testing of a sample of staff highlighted that only 65% of the induction courses had been completed, 54.7% of essential courses had been completed and 12.6% of recommended courses had been completed.

A Training Dashboard was developed by the Performance Improvement Team, to enable managers to be able to monitor their own staff's training; however, at the time of this review, was not a reliable source of information and does not work as intended.

Out of Area Placements (DRAFT) - Limited

The Care Act 2014 sets out clear expectations of a local authority to ensure that all individuals receiving care and support plans have the opportunity to reflect on what is and what is not working well. The Act requires Local Authorities to ensure care plans are kept under general review; and there is a suggested minimum requirement of an annual review.

The directorate have raised concern that Out of Area Placements may be at greater risk of not receiving regular review of their care support plans, however, whilst a holistic analysis could be undertaken of all clients from AIS, which currently shows 58% of reviews being completed within the required timelines (against a target of 85%), there is no ability to report solely on Out of Area Placements to effectively monitor such cases if they are deemed at higher risk of omission.

In the absence of a standard report from AIS, a data extraction was requested based on provider post code that highlighted a best estimate of 757 Out of County Placements. Analytical review showed that of those only 52% had an in date review. We examined the records of 10 clients with overdue reviews and found that reasoning for a delayed review was not routinely recorded.

Carer Assessments - Limited

The audit sought to provide assurance that the processes in place for the provision of Carers' Assessments (including respite care) were being completed appropriately in the older adults' client group, including whether respite care has been offered.

It was not possible to report on the number of carers and those which had had a carers assessment. Although Annual Statutory Short and Long Term (SALT) returns are made, which include statistics on carer support provided during the year, the return relies on information being accurately recorded in AIS, which may not always be the case.

Our testing of records on AIS found that Carers are not consistently identified, and carer provision is not routinely recorded between the carer and cared for persons' record. Additionally, there is no specific template for Carers Assessments, instead the client care assessment document is used, which may not be sufficiently detailed for all situations. Furthermore, review dates for carers assessments was not consistently set in AIS.

TUPE - Limited

The purpose of the audit was to attain assurance that the processes in place provide a smooth transition for employees being transferred into partner organisations. Since August 2021, 22 TUPEs have been completed involving 217 individuals.

Although testing of five TUPEs completed within the last year found that the employees had been transferred in on time with the correct positions set up, there were a variety of issues and delays with every project, particularly when the OM and eStore Manager was not available. This highlighted an over reliance on the OM and eStore Manager and need for further training and awareness within the wider team and more detailed documentation of the process.

Discussions highlighted that there is currently no reporting to senior management to highlight and escalate issues and delays within ongoing TUPE projects, to facilitate prompt escalation and resolution.

Additionally, there is no analysis carried out for completed TUPEs to monitor and report on the performance of projects. As a result, any delays and issues caused by partners or the IBC are unknown and trends cannot be identified or analysed to help improve the process.

Minibuses Adults -Thematic – Limited

The purpose of the audit was to ensure that an overarching strategy for Day Services vehicles management is in place, and that vehicles are only driven by staff with the relevant licence categories and after MiDAS training. This review also included ensuring checklists have been completed and that vehicle checks are appropriately carried out.

Positively, the Corporate Health & Safety Procedure – Transport – Driving for Work sets out a consistent way of managing the risks associated with driving for work and covers the driver's suitability to operate the vehicle (competence, licencing and fitness), different types of vehicles and the management, planning and scheduling of journeys (route, timing, duration and weather).

The Corporate Health & Safety – Transport – Driving for Work states that each time a vehicle is used the driver is responsible for ensuring the vehicle is road legal and safe. MiDAS training and HTM minibus documentation details the pre-journey checks that should be undertaken prior to driving a minibus. Testing found inconsistencies in the completion of these checks and two of the six day centres did not undertake any pre-journey vehicle checks if a different driver drove the vehicle on the same day.
The audit found that for two out of the 33 drivers tested across the centres, we were not able to obtain evidence if the drivers were MIDAS trained. Furthermore, no other training was evidenced for these drivers.

Whilst we found that the suitability for drivers to use vehicles was evidenced at all sites by DBS checks as part of the recruitment process and we were also advised that drivers with repeat workplace accidents are reassessed, we found that four of the six day centres visited (equating to 25 of the 70 day service drivers) do not have their driving licences checked on an annual basis.

County Highways Laboratory - Limited

This review sought to provide assurance over the efficiency and effectiveness of controls to offer a good customer service to all HCC and Private Sector clients. As part of this audit, we looked at the customer journey, from the customer's first contact with the laboratory to the efficiency of testing and results being reported to the client.

There was found to be a 1-year business plan in place for 2022/23, however we could find no evidence that progress on delivering the business plan is being monitored and reported to management. A plan has also been drafted for 2023/24.

The Quality Management Procedure Document states 'Non-HCC Client approval should be sought before carrying out subcontracting work, and should be recorded on the sub-contractor register.' This approval is not being sought, however, customers were kept informed where sub-contractors had been used.

Customers had reported through the customer survey in 2021/22 that they were unhappy with the length of time sub-contractors would take to send reports back to them, however, we were advised that there were no specified timescales within the contracts with sub-contractors and therefore no monitoring was in place to ensure that testing results are reported within a reasonable time period.

Although risk assessments for site visits are kept in physical folders in the office, there is no evidence to confirm that technicians are looking at these before they carry out a site visit.

HTM H&S compliance – Limited

Hampshire Transport Management (HTM) is Hampshire County Council's (HCC) in-house supplier of vehicles and provider of servicing and maintenance.

HTM has developed its own sets of safety policies and as part of this should carry out a biannual management inspection to confirm compliance with health and safety requirements or rectify any issues identified. However, these checks were suspended due to Covid-19 and had not resumed at the time of the audit.

We also found that there was an expectation for a yearly planner to be completed to prompt checks by the workshop managers throughout the year, however, at the time of the visit in October 2022, this had yet to be published for 2022/23. Tasks should be crossed off as completed, however, this does not provide evidence of who completed the check and when, or the outcome and any action taken. It is therefore unclear how health and safety compliance is currently being monitored by the HTM management team.

HTM's own health and safety manual has not been updated in recent years, consequently, recent changes to HTM's structure, personnel and requirements are not accurately reflected in it. Additionally, the existing risk assessment procedure is not sufficiently robust to ensure they remain up-to-date and properly approved.

Sufficient measures have not been implemented to ensure staff members are properly trained on the relevant health and safety procedures.

Registration Services - Booking System (marriages) - Limited

The General Registration Office (GRO) is the government department who hold records of marriages and civil partnerships for England and Wales and GDPR compliance forms part of their audits. Positively, the latest inspection report demonstrates no issues were raised.

The CERCO manual which contains the key processes/procedures for the registration team to follow has not been updated since May 2021 and is missing key procedural information (e.g., venue licensing).

Approved venue data was found not to match between the three systems currently in use, these being the roster database (utilised to book ceremonies); venue licensing database (utilised to track venue licenses) and mini manuals (regional prints of venues which administrators use to book ceremonies). A new booking system to replace the existing roster database is planned for implementation in the near future.

Fees quoted to customers are logged in the roster database and payment is taken via card machines which is automatically posted to SAP. The planned monthly reconciliation between the roster database and SAP had not been completed during 2022/23.

The Registration team should check payment has been received before a venue license is issued. However, our sample testing of eleven venues identified four where payment had not been verified.

International Standards on Assurance Engagements (ISAE 3402)

ISAE 3402 provides an international assurance standard allowing public bodies to issue a report for use by user organisations and their auditors (user auditors) on the controls at a service organisation that are likely to impact or be a part of the user organisation's system of internal control over financial reporting enabling them to inform both their annual governance statement and the annual audit opinion.

In 2022/23 Hampshire County Council commissioned a Service Organisation Controls (SOC) Type 2 Report under International Standard on Assurance Engagement (ISAE) 3402. Assurance against the international standard was provided by Ernst & Young.

The scope of the review incorporated coverage of General Ledger, Order to Cash, Purchase to Pay, Cash & Bank, HR and Payroll, IT General Controls. In forming their 'Opinion' the auditors (Ernst & Young) concluded:

'In our opinion, in all material respects:

a. The Description fairly presents the finance, HR and IT shared services system as designed and implemented throughout the period 1 April 2022 to 31 December 2022.

b. The controls related to the Control Objectives stated in the Description were suitably designed throughout the period from 1 April 2022 to 31 December 2022 to provide reasonable assurance that the Control Objectives would be achieved if the controls operated effectively throughout the period 1 April 2022 to 31 December 2022 and if subservice organisations and user entities applied the complementary controls assumed in the design of Integrated Business Centre's controls throughout the period 1 April 2022 to 31 December 2022; and

c. The controls tested, which were those necessary to provide reasonable assurance that the Control Objectives stated in the Description were achieved, operated effectively throughout the period 1 April 2022 to 31 December 2022 if complementary subservice organisation and user entity controls assumed in the design of Integrated Business Centre's controls operated effectively throughout the period 1 April 2022 to 31 December 2022.'

To compliment the ISAE 3402 Type 2 report a further letter of assurance was provided by the Director of Corporate Operations to confirm for the period 1 January 2023 to 31 March 2023:

- There have been no significant changes to the processes and controls set out in the report.
- There have been no instances in which the design of existing controls was not effective due to changes to the environment in which the System operates, data, personnel, or other factors.
- There have been no instances in which controls did not operate as designed due to changes in the environment, data, personnel, availability of resources or other factors.
- There have been no instances in which the Company has failed to achieve the related control objectives; and
- There are no reasons why we believe the Management Statement would not still be valid.

Internal audit continue to review areas of the Shared Services falling outside the scope of the ISAE2302 engagement as appropriate, through a shared internal audit plan with Hampshire County Council and Hampshire and IoW Police. The results of this work are reflected in this opinion.

Management actions

Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

Progress is reported to the Audit Committee throughout the year through the quarterly internal audit progress reports.

6. Anti-Fraud and anti-corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image.

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of fraud and corruption (Anti-Fraud & Corruption Strategy and Response Plan; Whistleblowing Policy and Anti Bribery Policy).

Counter-fraud activity during the year has delivered a programme of proactive and reactive work to complement the internal audit strategy and annual plan focusing resource against assessed fraud risks in addition to new and emerging threats.

Reactive Fraud / Irregularity Activity - The Southern Internal Audit Partnership work with Hampshire County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews are undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council's Anti-Fraud & Corruption Strategy & Response Plan. During the year there were no material fraud investigations undertaken.

National Fraud Initiative (NFI) - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

Data was uploaded in October 2022 and match reports across pensions, payroll, blue badges, concessionary travel, creditors, VAT, and Companies House were released from January 2023 onwards. All high priority matches have been risk assessed and action taken to commence investigation where appropriate.

Proactive Approach - Whilst our reactive fraud work assists the Council in responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are appropriately explored to understand, prevent and detect fraud risks across the organisation.

Initiatives and subsequent outcomes during the year included:

- Advice and guidance were provided across approx. 60 enquiries. The common themes continue to relate to email scams (mandate fraud, malware, impersonation and spoof emails), with schools being particularly targeted.
- We have issued a number of fraud awareness bulletins during the course of the year. Key themes covered have included mandate fraud, social engineering and procurement cards.
- Two themed proactive review were undertaken during the year in relation to procurement cards and payroll expenses. The results of each review are collated into summary reports identifying any potential exposure to fraud risks. The procurement card report has been issued and the payroll expenses report is being prepared.

7. Quality Assurance and Improvement

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include provision for both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. In considering all sources of evidence the external assessment team concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

8. Disclosure of Non-Conformance

There are no disclosures of Non-Conformance to report. In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through endorsement from the Institute of Internal Auditors that:

'the Southern Internal Audit Partnership conforms to the Definition of Internal Auditing; the Code of Ethics; and the Standards'.

9. Quality Control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2022-23 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success.
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach.
- A tailored audit approach using a defined methodology and assignment control documentation.
- Review and quality control of all internal audit work by professional qualified senior staff members.
- An internal quality assessment against the IPPF, PSIAS & LGAN to support the 2020 independent external assessment.

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10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	Actual
Percentage of internal audit plan delivered *(to draft report)*	95%	95%
Positive customer survey response		
• Hampshire County Council	90%	99%
• SIAP – all Partners	90%	99%
Public Sector Internal Audit Standards	Compliant	Compliant

Customer satisfaction is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date April 2023).

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the Council with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership

Summary of Assurance Reviews Completed 2022-23

Annex 1

Substantial – A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

- Cloud Applications– Adult Services – TCES
- Strategic Financial Planning & Monitoring
- Major Incident Management
- IT Contract Management
- O365 Platform Management
- Budget Monitoring – AHC
- Vulnerability Management (Compliance)
- CART/MASH Information Sharing
- Afghan Bridging Hotel Work
- Street Works (Permitting System)
- Flood Risk Coastal Defence Programme
- HWRC Contract Management
- Procurement-YA Supported Accommodation
- Banking
- Treasury Management
- Budget Planning

Reasonable – There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

- Compliance with DBS/NPPV checks (Draft)
- Sickness Management (Draft)
- Cloud Applications – Children's Services - FTT Aspire
- Cloud Applications – Children's Services – SchoolPod
- Cloud Applications– Adult Services – Nourish
- Annual Governance Statement
- Ransomware Defence and Response
- HPSN3
- School Thematic – Payroll
- Provider Failure
- Client Affairs (Draft)
- Holiday activity fund
- Education Psychology (Draft)
- Minor works framework (Property)
- Emergency Planning
- Climate Change - Strategy & Framework
- Developers Contributions
- Equalities Impact Assessments (Draft)
- Ukraine Payments
- Discharge to Assess – Customer Journey
- COVID-19 Grants
- Use of agency workers
- County Supplies Transport & Distribution
- Buildings Health and Safety
- Tree management
- Highways Service contract
- Pay Review and Award Process
- Asset Investment Strategy
- Road Adoption Process (Draft)

Limited – Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

- Independent Non-Maintained Special Schools
- Contingency Planning
- School Thematic–Government Grants
- Management of Legionella
- School Thematic - Income Generation (Draft)
- Swanwick Lodge
- Direct Payments (Draft)
- Training Attendance
- AHC thematic review – Minibus usage
- County Highways Laboratory
- Out of Area Placement Reviews (Draft)
- Carers Assessments
- HTM H&S compliance
- Registration Service-Ceremony Booking
- TUPE
- School Thematic – Procurement (Draft)

No – Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

HCC Care Charging

*Two reviews (Education Other Than Schools and Continuing Health Care & Recharging) have been drafted; however, we are awaiting factual accuracy prior to reporting. Both will be reported as part of the next progress report to the Audit Committee. The status of these reviews has not inhibited my ability to provide an overall opinion on the County Council's framework of governance, risk and control.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee:	Audit Committee
Date:	September 2023
Title:	Annual Governance Statement
Report From:	Director of People and Organisation and Director of Corporate Operations

Contact name: David Kelly

Tel: **Email:** David.Kelly@hants.gov.uk

Purpose of this Report

1. The purpose of this Report is to seek the Audit Committee's approval of the Annual Governance Statement for 2022-23

Recommendation(s)

2. That the Audit Committee approve the 2022-23 Annual Governance Statement.

2.1. That the Audit Committee notes the progress that has been made against the actions set out in the 2022-23 Action Plan as set out in Annex 2 of this Report.

Executive Summary

3. Annex 1 to this Report contains the draft Annual Governance Statement for the year ending 31 March 2023. Pursuant to the Accounts and Audit Regulations 2015, the Annual Governance Statement must be approved by the Audit Committee in order for it to accompany the signed and dated Statement of Accounts. The Annual Governance Statement must subsequently be signed by the Leader of the County Council and the Chief Executive.

3.1. Annex 2 to this Report contains an update on the actions set out in the 2022-23 Action Plan.

Contextual Information

4. The County Council is required pursuant to the Accounts and Audit (England) Regulations 2015 to produce a broad-based Annual Governance Statement.

4.1. Once approved by this Committee the Annual Governance Statement must be signed on behalf of the County Council by the Leader of the Council and the Chief Executive.

4.2. The Annual Governance Statement is an important and integral part of the County Council's Corporate Governance regime.

4.3. The Annual Governance Statement provides a review of the effectiveness of the County Council's internal control systems and gives assurances about how effectively they operate.

4.4. Guidance supplied by the Chartered Institute of Public Finance Accountancy (CIPFA) has been considered in the preparation of the draft Annual Governance Statement.

Methodology

5. In early 2023 directorate assurance statements were sent out to all directorates seeking assurances about the directorate's governance arrangements.

5.1. In March 2023 Officers performing key corporate roles on behalf of the County Council were asked to produce an appropriate position statement based on the CIPFA guidance.

5.2. A copy of the emerging Annual Governance Statement has been sent to all Chief Officers, officers undertaking key corporate roles on behalf of the County Council and the Leader of the County Council for comment. The comments received have been considered in preparing the draft Annual Governance Statement in Annex 1.

Draft Annual Governance Statement

6. The content of the draft Annual Government Statement follows the CIPFA guidance and has been prepared in relation to the County Council's Code of Corporate Governance. Members of this Committee now have the opportunity to comment upon it and to indicate whether or not they wish to see any amendments made.

7. Climate Change Impact Assessment

7.1. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts 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.

8. The carbon mitigation tool and/or climate change adaptation tool were not applicable because the decision is administrative in nature.

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:
The preparation and approval of an Annual Governance Statement is a Statutory Requirement**.**

Other Significant Links

Links to previous Member decisions:	
Title	Date
Direct links to specific legislation or Government Directives	
Title	Date
Accounts and Audit (England) Regulations	2015

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
Delivering Good Governance in Local Government 2016 Edition	
Departmental Assurance Statements	

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:**

2.1. No equality impacts have been identified relating to the decision recommended in this Report.

Annual Governance Statement 2023/24
Action Plan Log

Action	Action Owner	Update	Date
4.1 Ensuring that Risk Registers are frequently reviewed to ensure that these continue to represent the key risks the County Council are managing, that the controls identified are appropriate, and there is assurance these are being managed effectively.	Stephanie Randall	• Directorate risks continue to be actively managed and evaluated against the County Council's risk management assessment criteria and are overseen by the respective Directorate Management Team (DMT). This continued focus by directorates ensures that the risks captured in their risk registers remain relevant and reflect the latest assessment and scale of risk, based on the control measures in place. • Further work to align risks with the new organisation structure implemented in January has also been completed, and directorates have used this as an opportunity to review and consolidate (where appropriate) their broader risk registers. This has been particularly pertinent for the newly formed directorates. • The membership of the Risk Management Steering Group (formally the Risk Management Board) and the three sub-groups has also been reviewed in line with organisation changes, to ensure that representation from	07/09/23

		directorates remains appropriate and includes deputies. Each group has updated their Terms of Reference, accordingly, setting out that the RMSG provides a steer on the strategic priorities or order of business, prior to formal approval through the Corporate Management Team (CMT). • To ensure accountability for managing risk remains at the highest level, CMT have dedicated time over the last six months to discuss and review in detail the key risks to the County Council. This has included: ○ The regular six-monthly risk report to CMT, which provides oversight of changes to key directorate risks, as well as providing scrutiny to the Corporate Strategic Risk Register. There has been a particular focus at CMT on any directorate level risks that have ‘limited’ mitigation control levels, requesting that directorates scrutinise these risks, ensuring there is robust reasoning	

		for any proposed as 'tolerated'. ◦ A full review of the corporate strategic risk register, resulting in a number of risks being repositioned, with others being closed or new risks being created. ◦ Directors (as risk owners for each of the Corporate Strategic Risks) are also further developing their individual approach to how they secure assurance from relevant directorates of the effectiveness of the risk control measures in place. • Aligned with the County Councils Corporate Resilience framework and strategy (which will be reviewed during 2023), the changes to the corporate strategic risk register include the addition of a new corporate strategic risk, which focuses more holistically on the risks associated with the response and recovery from a range of emergency incidents, including those high and very	

		high risks identified on the National Risk Register (e.g., pandemic, coastal flooding, cyber-attacks, and regional power supply failures). This risk captures the control measures currently in place to ensure the organisation can effectively maintain business resilience and continuity whilst responding to these types of incidents, which can often vary in terms of complexity and length, through to recovery. • The annual Corporate Risk Management report, together with a confidential annual report on the Corporate Strategic Risk Register, will be presented to Cabinet in October. This will also be presented to the Audit Committee later in the year.	
4.2 Ensure that there is alignment with the County Councils Corporate Resilience framework and supporting plans and to build further resilience and capability within the organisation which will safeguard our ability to provide an effective response to emerging incidents which are outside of our control.	Stephanie Randall	See above	
4.3 Audit Committees Terms of Reference will be reviewed to take account of the latest guidance issued by CIPFA	David Kelly / Neil Pitman	A working group of Key Governance Officers has been formed to take this forward and are considering changes to Terms of Reference,	21/08/23

		Training Needs, and the potential for an Annual Report.	
4.4 Review the County Council's scrutiny arrangements in the light of the new Council operating structure	David Kelly	The County Council's Scrutiny Arrangements have been reviewed and one Select Committee removed with the remaining Select Committees all moving to 17 County Council Members.	07/09/23
4.5 Develop a Business Continuity exercise policy over 23/24 alongside the new directorate Bronze Plan designed to ensure plans and scenarios are tested on a regular basis, and that the lessons learned from them are documented and actioned	Mike Bridgeman	Universal Service Bronze plan has been drafted in collaboration with USDMT. Due to be signed-off in Q3 23/24. - Planning an initial exercise at DMT Level in October 2023, subject to Emergency Planning resource; - A further programme of exercises will be informed by US Service Recovery Plans. These plans are in the process of being updated first, with a programme of exercises likely to commence in Q4.	07/09/23
4.6 Adults' Health and Care will strengthen further its approach to care governance and quality assurance by implementing a phased, internal self-assessment	Marianne Mitchell	AHC have begun its internal self-assessment process, the internal self-assessment is based on the CQC's Single Assessment Framework and encompasses all four domains and nine quality statements. Currently two of the nine quality statements have completed the self-assessment process, which included scrutiny through the self-assessment external executive group. Action plans have been drawn together following the	21/08/23

		assessment and will monitored by the Care Governance Board. Three further domains are currently in progress and due for submission at the end of August. It is planned that the initial round of self-assessment will be completed by the early 2024 and that following this AHC will take part in a LGA peer review.	
4.7 CareDirector / Go live Implementation to support the improvement in the recording of client data.	Sarah Snowdon	On plan for November go live Director of Corporate Operations and Deputy Chief Executive and Director of Adults Health and Care are receiving monthly exec updates via corporate assurance and are key to go no go decisions between now and November No change to go live date at this time	21/08/23

Updated: 21 August 2023

Hampshire County Council

ANNUAL GOVERNANCE STATEMENT 2022/2023

FOR

HAMPSHIRE COUNTY COUNCIL

AND

HAMPSHIRE PENSION FUND

Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund

1. Scope of Responsibility

Hampshire County Council is responsible for ensuring that:

- its business is conducted in accordance with the law and to proper standards.
- public money is safeguarded and properly accounted for, and used economically, efficiently, and effectively.
- pursuant to the Local Government Act 1999 it secures continuous improvements in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy.
- there is a sound system of internal control, which facilitates the effective exercise of the County Council's functions and which include arrangements for the management of risk.

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel and Board.

The combined Panel and Board is responsible for investment, management and governance of the Fund.

This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement during 2022-2023.

2. The purpose of Corporate Governance

The governance framework comprises the systems and processes, and cultures and values, by which the County Council is directed and controlled and its activities through which it accounts to, engage with and leads the community. It enables the County Council to monitor the achievements of the County Council’s strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of the County Council’s policies aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2023 and up to the date of approval of the annual report and the statement of accounts.

The County Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. A copy of the Code is available on the County Council's Web site at:

Code of Corporate Governance

3. Core Principles of good governance

3.1 Behaving with Integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

3.1.1 The County Council's Constitution is predicated on it operating in an open and transparent way, and for the Leader of the County Council and the Chief Executive to set the tone for the organisation by creating a climate and culture of openness, support, and mutual respect.

3.1.2 The County Council is committed to the highest ethical standards and has adopted a governance framework to re-enforce this philosophy as well as procedures to investigate any issues should the need arise. The framework, policies and procedures are set out in the County Council's Code of Corporate Governance which was adopted by the County Council during 2016-17. The Code of Corporate Governance demonstrates a comprehensive commitment on the part of the County Council to integrity, ethical values and the rule of law.

3.1.3 Officers from Legal Services and Governance monitor new legislation with the assistance of on-line resources and provide an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to implement it.

3.1.4 The County Council continues to further strengthen the arrangements governing work to advance inclusion and diversity across the Authority and its services, extending this to encompass wellbeing. In addition to a Steering Group, chaired by the Director of People and Organisation, and an Operational Forum, bringing together Equalities Leads and Champions, we have several staff network groups which play key roles in this space across the organisation.

3.1.5 The Director of People and Organisation chairs the County Council's Steering Group and oversees the formal staff networks and Wellbeing Task Group which focus on developing and driving forward work in support of the IDW agenda. Inclusion Sponsors from each directorate also play an important role in strengthening the County Council's external facing inclusion work, ensuring improvement actions are embedded within directorates and empowering staff at all levels to contribute to this agenda.

3.1.6 A strategic work programme is in place which demonstrates how the County Council is delivering against its Equality Objectives. This is informed by staff feedback and the results of external assessment against the National Inclusion Standard, undertaken by Inclusive Employers.

3.1.7 The County Council received *Bronze* award following its 2019 assessment, ranking top of the category and third overall. In the autumn of 2021, the County Council was awarded Level 2 accreditation in the Disability Confidence Scheme. This Scheme encourages employers to improve how they recruit, retain and develop disabled people and will support the Council as being an employer of choice.

3.1.8 The work programme continues to develop to meet the inclusion, diversity and wellbeing agenda and reports on a quarterly basis to the Steering Group, and the Corporate Management Team and on a bi-annual basis to Cabinet. This activity enables the County Council to meet, and go beyond, its statutory obligations under the Equalities Act.

3.2 Ensuring openness and comprehensive stakeholder engagement.

3.2.1 The County Council's Corporate Strategy – the *Serving Hampshire* Strategic Plan - contains clear strategic aims which are communicated on the County Council's website and through various communications. The Plan provides an operating model for business planning and is informed by various directorate and partnership strategies and priorities. A revised Strategic Plan for the period 2021-2025 was agreed by the County Council in September 2021 and a further amendment in November 2021. A light touch review of the Strategic Plan will be completed during 2023/24.

3.2.2 Clear guidance and protocols on decision making, effective arrangements for the approval of exempt reports and easy to use templates for decision reports and records ensure that that the County Council takes decisions in public when appropriate and after a full consideration of relevant factors. Details of the framework relevant to decision making is set out in the Corporate Governance Framework.

3.2.3 Public consultation and engagement to inform decision making is undertaken in accordance with the County Council's Consultation Policy, which includes five principles of consultation setting out when and how the County Council will consult the public. Significant and statutory consultation is supported by the County Council's Insight and Engagement Unit, which operates within the Market Research Society's ethical Code of Conduct.

3.2.4 The results of all significant consultations are presented at the relevant decision-making forum to demonstrate how participants' views have been considered.

3.2.5 Consultation methodology is based on stakeholder analysis and equality impact assessment, undertaken at the outset of planning any engagement. This informs the best approach to reaching the target audience, including those who may be harder to engage. Alongside more traditional forms of engagement, such as surveys, the County Council employs creative tools and techniques where appropriate to engage different audiences, including working with the County Councils cohort of Community Researchers (established during the Pandemic) to support a number of Public Health priorities.

3.2.6 Digital platforms, such as Instagram and Facebook Live, are also increasingly being used to engage younger audiences and those who may find it more difficult to attend focus groups in-person. The regular residents' survey 'Hampshire Perspectives' also continues to support the County Council's insight into residents' opinions.

3.2.7 The County Council also regularly undertakes organisation-wide staff surveys on priority topics (e.g. inclusion and diversity; health and wellbeing) as part of a broader programme of employee engagement through a wide range of platforms and channels and in the context of new working practices including hybrid working.

3.2.8 Each financial year, an annual report on the Pension Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.

3.2.9 The Investment Strategy Statement is published and made available to scheme employers within three months of any amendments.

3.2.10 Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners.

3.3 Defining outcomes in terms of sustainable economic, social and environmental benefits.

3.3.1 The strategic aims set out in the *Serving Hampshire* Strategic Plan include a description of the County Council's overarching ambitions for delivering positive economic, social and environmental outcomes for Hampshire. These aims are underpinned by a series of key priorities, which reflect, and are supported by, other detailed directorate plans and strategies. Progress against the strategic aims and priorities is tracked through quarterly performance updates to the County Council's Corporate Management Team and six monthly to Cabinet. Arrangements for reporting corporate performance are set out in the County Council's Corporate Performance Management Framework.

3.3.2 All reports to decision making bodies must also demonstrate their link to the *Serving Hampshire* Strategic Plan, as well as the results of the relevant impact assessments. Equality Impact Assessments and Climate Change Impact Assessments (the latter applying two decision-making tools to assess the carbon emissions and resilience impacts of relevant projects and decisions) are also required of relevant decisions.

3.3.3 The corporate Performance Management Framework which underpins the *Serving Hampshire* Strategic Plan, incorporates the separate monitoring and reporting of the agreed Climate Change Strategy and the recommendations from the Hampshire 2050 Commission of Inquiry.

3.3.4 The Pension Fund Panel and Board has a fiduciary duty to ensure that investment returns are maximised for the benefit of members of the Pension Fund, but in doing so must also have due consideration to Environmental, Social and Governance (ESG) issues. The Pension Fund Panel and Board is required to produce a Responsible Investment Policy and this was updated and approved by the Board in July 2022 (following to public consultation) and outlined the progress that had been made in particular against the Fund's carbon reduction programme and provided a commitment to the aim for its investments to be carbon neutral by 2050 at the latest in line with Government policy.

3.4 Determining the interventions necessary to optimise the achievement of the intended outcomes.

3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decisions of the County Council ensures that decisions are only made after relevant options have been weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.

3.4.2 The Director of Corporate Operations advises the Pension Fund Panel and Board and its Responsible Investment sub-committee on all Pension Fund investment and administrative matters.

3.4.3 The Pension Fund's independent adviser advises the Panel and Board on investment matters.

3.4.4 The Pension Fund Panel and Board uses the Fund's actuary and other consultants as necessary, for advice on matters when in-house expertise is not appropriate. The Panel and Board takes advice from the actuary, the Fund's investment managers or specialist consultants or advisers as required on allocating assets and investment return targets.

3.4.5 Equality Impact Assessments (EIAs) are used throughout the organisation to assess the impact of service proposals and to inform decision making. In 2021 Directorates completed an internal assessment of the equality and inclusiveness of their services, leading to the development of action plans on areas for potential improvement.

3.4.6 The emerging themes included *creating awareness* (amongst our service users, residents, communities, providers, partners and staff), *building skills, knowledge, confidence and capability*, developing our *service planning* approach through integrating equality objectives, as well as embedding these within our *procurement processes*, and developing how we *capture and use equalities data* to support service planning and decision making. During 2022/23 good progress was reported by directorates in relation to their plans, with all actions having either been completed or on track for delivery.

3.4.7 The budget setting process is well established and directorates prioritise budgets and spending in order to achieve intended outcomes. In recent years' the budget setting process has inevitably focussed on the achievement of savings to offset the increased costs of pay and price inflation and growth in need for social care services, but this aims to be achieved whilst remaining true to the Council's strategic aims and objectives. This includes the consideration of the wider social value that the County Council can generate through its operations.

3.4.8 A medium-term financial strategy and three-year capital programme is updated each year together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates. The absence of a multi-year financial assessment has made financial planning difficult, but the County Council continues to plan for the medium-term using assumptions set out in the Medium-Term Financial Strategy (MTFS).

3.4.9 Risks associated with the achievement of intended outcomes are detailed in the corporate electronic Risk Register which itemises risks held at Corporate (cross-cutting) and directorate level. These evaluate the effectiveness of existing control measures as well as identifying proposed mitigation. Corporate and directorate risk registers have been reviewed and updated. These risk registers are regularly reviewed by the Directorate Management Teams and the Corporate Risk Management Board, with key risks also being reported to CMT. A Corporate Risk Management update report is also presented to the Audit Committee on an annual basis.

3.4.10 The Reading Hampshire Property Partnership Limited (RHPP) is a public-to-public partnership arrangement between Hampshire County Council (HCC) and Reading Borough Council (RBC) for the delivery of property related services. The RHPP was formally established as a limited company in April 2014 and is operated in accordance with the Companies Act 2006. Two named senior officers from each partner organisation are appointed to the roles of Directors of the RHPP and the Board of Directors meets formally twice a year.

3.4.11 The RHPP accounts are filed with Companies House and appropriate insurance is held to cover risks. A revised annual report is being developed that will include financial reporting, progress against the RHPP business plan and partnership objectives and benefits of the arrangement and will be reported to the Executive Member for Commercial Services, Estates and Property.

3.4.12 The County Council holds a joint 999-year lease with Basingstoke and Deane Borough Council of around 820 hectares of land located to the west of Basingstoke known as Manydown. In respect of the first phase, the land north of the main Southampton to London railway referred to as Manydown North, the two Councils have entered in to two separate but related Joint Venture arrangements.

3.4.13 The first, established between the two Councils is the Manydown Garden Communities (MCG) LLP, whilst the second known as the Manydown Development Vehicle (MDV) LLP is between the two Councils (as MGC) and the selected development partner Urban and Civic Ltd. Each JV has a regular Board meeting and various legal agreements set out the basis of the

County Council’s representation at each Board and the associated roles and responsibilities for each Board Director.

3.4.14 For the MGC LLP, there is one Elected Member and 2 Senior Officer representative (including approved substitutes). For the MDV LLP, the County Council’s interests (on behalf of MGC) are represented by the same 2 Senior officers, together with a third nominated Officer, again with approved substitutes. The Member and Development Agreements set out: the responsibilities of each Board; delegation policies and matters to be escalated; approval of either an Annual and/or Overarching Business Plan (including Budget); the measurement of performance against each Plan, together with the management and oversight of potential emerging risks and issues.

3.4.15 The MGC LLP and MDV LLP accounts are separately audited and reported to Companies House. The Annual/Overarching Business Plan(s) are reported to the County Council’s Leader and Executive Member for Hampshire 2050 and Corporate Services for approval.

3.4.16 The governance of *Connect2Hampshire* is underpinned by the LLP Members agreement, which sets out in detail the management arrangements for the joint venture through its Board and Executive Board. The membership of these boards includes the Director of People and Organisation as one of the two LLP Board Members, as well as a further Senior Officer of the County Council as a Member of the Executive Board. This enables the County Council’s interests to be fully represented within the decision making of the LLP, as well as ensuring the successful performance of the LLP to meet the County Councils broader workforce objectives.

3.4.17 The Board’s responsibilities include agreement of the annual business plan, understanding the LLPs performance against this plan, and the management and oversight of potential emerging risks and issues. The expected levels of service performance are set out within a separate Joint Accountability Statement agreed between HCC and the LLP, with performance against defined Key Performance Indicators being reviewed on a quarterly basis through meetings held between Connect2Hampshire and Senior Officers of the County Council. Clear routes of escalation exist through to HCC’s Corporate Management Team, should this be required.

3.4.18 During 2022 an assurance mapping exercise was completed by the County Council in relation to Connect2Hampshire to validate how the County Council gains assurance across a range of functions of the LLPs operating model. As part of the assurance framework in place, The Corporate Management Team ‘CMT’, the Employment in Hampshire Council County Council Committee ‘EHCC’, and the Executive Member for Hampshire 2050, Corporate Services receive an annual performance update report.

3.5 Developing the County Council’s capacity including the capability of its leadership and the individuals within it

3.5.1. The relationship between Members and Officers is led by the Leader of the Council and the Chief Executive who have established a culture of mutual respect and co-operation. The role of the Chief Executive is set out in the

County Council's Constitution and is well understood by the Members of the County Council. The Protocol for Member Officer Relations also provides clear guidance for both officers and Members on how to manage their relationships effectively.

3.5.2 The County Council's Member Induction Programme is well established and as the Council heads towards Elections in 2025 it will be reviewed. Initial induction is built on via the established monthly Briefing Programme which continues to be well received. The programme continues to be delivered virtually to offer flexibility of attendance and supplemented by in-person topic-specific briefings as required. The Programme has included annual corporate topics such as finance, treasury management and the County Council's workforce reporting together with Directorate specific updates and regular updates on economic recovery and resilience from the Chief Executive and Corporate Management Team. Members also have the opportunity to participate in external training events and seminars to support upskilling and knowledge refresh.

3.5.3 Members of the Joint Pension Fund Panel and Board and officers in Corporate Operations have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate.

3.5.4 A training plan for members of the Joint Pension Fund Panel and Board has been prepared, and training logs for individual members are maintained.

3.5.5 The County Council continues to regularly review the shape of its workforce against the needs of the service in the context of its capacity and capability requirements. This then informs a range of strategies, for example, recruitment, retention, operating models, ways of working and people development to provide effective leadership and deploy appropriate resources to meet the needs of services. In addition, each Directorate can articulate areas of their workforce where there are specific issues or concerns and have Workforce Strategies and plans in place where necessary.

3.5.6 The Annual Workforce Report continues to provide a good understanding of our people in relation to the various stages of the 'employee life-cycle' (Attract, Resource, Onboard, Develop, Reward and Recognise, Progress and Perform, Retain and Exit), and references areas of attention and further work to be undertaken to address the workforce challenges facing the County Council in the light of the national and local labour market post pandemic.

3.5.7 The Council's Valuing Performance policy provides a framework for staff and managers to meet, discuss and set goals in line with service requirements, following which regular reviews of performance, learning and progress takes place. Staff continue to be held accountable for their own and their teams' performance and are encouraged to use the range of learning opportunities that are available across the Council.

3.5.8 The Council has a thorough management and leadership development program available both for existing leaders as well as those identified as 'high potential'. These leadership programs are underpinned by a leadership competency framework.

3.5.9 Our senior leadership development framework is in the process of being reviewed to take account of the changing needs of our workforce in order to ensure that they best meet the future leadership needs of the Council, taking particular account of the changes in our ways of working, IDW agenda, and the increasing challenge to balance service delivery and demand.

3.5.10 Organisational development is delivered through a range of means led by both Corporate and Directorate Management teams as appropriate.

3.5.11 Lessons learnt exercises are regular practiced where necessary and appropriate and are undertaken through a 'system wide' perspective. We continue to use our agreed 'organisational' principles to shape and develop areas of organisation design and development to ensure our operating models are fit for purpose over the short to medium term.

3.5.12 There is an emphasis on the need for high performance and resilience. Health and wellbeing and continuous development are critical elements in the regular one to one discussions between managers and staff particularly for those roles that include hybrid working. The suite of resources continues to be developed and provides a significant range of information and support for managers and staff.

3.5.13 Health and Wellbeing continues to be a key focus for CMT, the IDW Steering Group and Directors and their DMTs and forms part of regular discussions at team meetings across the organisation.

3.5.14 To further support our understanding of our workforce's experiences post the pandemic and to continue to support recovery, regular monthly wellbeing 'pulse' surveys are undertaken where $1/12^{th}$ of the organisation is polled. Results of these surveys continue to inform activities or actions that would support staff in meeting the County Council's objectives.

3.5.15 The Wellbeing Task Group, chaired by the Director of Public Health and Director of People and Organisation with actions embedded within the overarching strategic Inclusion, Diversity and Wellbeing work program have continued to lead in this space alongside representatives from all Directorates.

3.5.16 The County Council recognises the importance of its staff networks to supporting the inclusion and diversity of its workforce. All formal networks continue to have action plans in place, which align with and support the strategic Inclusion, Diversity and Wellbeing work programme.

3.5.17 Of specific note during 2022/23 is the work undertaken to enhance our colleagues knowledge and understanding of people in terms of gender and LGBT+ through facilitated conversations across the organisation entitled 'let's talk about gender and LGBT+'. This supports individual and organisational learning and development and progresses our Inclusion and Diversity agenda.

3.6 Managing risks and performance through robust internal control and strong public financial management.

3.6.1 The County Council's Corporate Strategy is underpinned by the Corporate Performance Management Framework, which establishes how the County Councils performance against the strategic plan is to be measured and reviewed on a regular basis. This currently includes twice yearly reporting of progress made towards achieving the objectives of the *Serving Hampshire* Strategic Plan, year-end Serving Hampshire Performance Report is also published on the County Council's website.

3.6.2 The County Council's Risk Management Strategy, covering the period 2022-2025, was approved by Cabinet in October 2022. Oversight of this Strategy is provided by the Corporate Risk Management Board, who drive forward initiatives and improvements to achieve the Strategy's aims and objectives. This includes provision of corporate guidance on risk management best practice, to support staff to manage risk effectively and consistently.

3.6.3 To strengthen risk management arrangements, three cross directorate sub-groups for part of the overall risk governance approach, reporting to the Corporate Risk Management Board – the Resilience Management Group, the Health & Safety Management Group, and the Information Governance steering group.

3.6.4 The Risk Management Board continue to report on a quarterly basis to CMT, setting out the latest position on the Corporate Strategic Risk Register providing a high-level overview of Directorate risk registers and any key risk updates, any broader developments or improvements as well as potential emerging risks the Risk Management Board are currently considering.

3.6.5 The Risk Management Board submit an annual report to the Audit Committee who are responsible for considering the effect of the County Council's risk management arrangements and having oversight of the Corporate Strategic Risk register. The corporate guidance for staff clearly sets out the organisation's governance structure for managing risk effectively, including roles and responsibilities.

3.6.6 Key operational and strategic risks at both directorate and corporate level are actively managed and monitored by a named Risk Owner and Risk Control Manager. These risks are recorded in the Corporate Risk Management System and must have review dates and state the governance structure that is providing adequate monitoring and oversight of risk controls. All risks on the Corporate Strategic Risk Register are also reviewed on an annual basis by the Risk Management Board with the relevant Risk Owner/Control Manager.

3.6.7 A comprehensive Information Governance Framework is in place, overseen by the Data Protection Officer, with further oversight by the Risk Management Board, which includes the County Council Senior Information Risk Officer, and Directorate Senior Information Risk Officers.

3.6.8 The County Council regularly monitors its IT systems in the context of cyber security and in recognition of the ever-changing risks in this area, a programme of work continues to be progressed which seeks to further strengthen and improve awareness and management of cyber security risks.

3.6.9 The Audit Plan 2022-23 was developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's key risks and objectives, this includes a periodic review of the County Council's risk management processes.

3.6.10 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.

3.6.11 The internal audit plan incorporates provision for both proactive and reactive counter fraud and corruption work, which is underpinned by an embedded Anti-Fraud & Corruption Strategy and Policy and Anti Bribery Act Policy.

3.6.12 The delivery of the internal audit plan enables the Chief Internal Auditor to provide an annual report providing an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control which is reported to Senior Management and the Audit Committee.

3.6.13 The County Council's Audit Committee is well established and reports to Full Council. Members of the Audit Committee have no executive responsibility for the management of the organisation, thus ensuring that they are sufficiently independent to scrutinise and challenge matters brought to their attention.

3.6.14 The Audit Committee has a clear 'Terms of Reference' providing an effective source of scrutiny, challenge and assurance regarding the arrangements for managing risk and maintaining an effective control environment.

3.6.15 The County Council has a well-developed and effective scrutiny function, the structure of which is formalised through the County Council's Constitution. A pre-scrutiny approach enables Members to be engaged early in the process to ensure they can robustly challenge the Council's decision-making, to participate in policy review and development, and monitor the performance of the County Council as a whole.

3.6.16 A wide range of policy topics have been scrutinised in line with the organisation's strategic objectives including in-depth scrutiny by way of task and finish activity. The scrutiny function is supported by experienced officers in Democratic and Member Services together with input from specialist officers in the service directorates.

3.6.17 The County Council has strong financial management arrangements at both the strategic and operational level and consistently obtains unqualified opinions for its annual accounts and value for money assessment. The Section 151 Officer is a member of the Corporate Management team and all formal financial decision making has the benefit of the advice and review of the Chief Financial Officer (CFO) or his representative.

3.6.18 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.

3.6.19 Financial management in key risk areas across the County Council focusses on activity and performance management alongside the budget management processes and the financial management framework throughout all tiers of the organisation is appropriately advised and supported by the Finance Service, with a particular focus on the change management programmes that have been a feature of Directorate activity for many years.

3.6.20 A framework for the roles and responsibilities of budget holders and their interaction with the Finance Service has been rolled out across all directorates and are proving effective in improving the financial accountability and expectations of budget managers. As part of the approach, the CFO maintains a system of robust scrutiny of the current financial position and forward forecast for the next three years for each Directorate alongside appropriate reporting to CMT and Cabinet.

3.6.21 The County Council's approach to financial management enables the CFO to develop a prompt financial response to new risks. For 2022/23, whilst some latent impact of the Covid pandemic continues to affect some aspects of social care, it has been the period of high inflation that has impacted revenue and capital spending more widely. The County Council has been able to mitigate this pressure using a range of measures including use of its reserves, robust 'open book' negotiation with suppliers and careful review of its forward purchasing of energy.

3.6.22 However, as reported to Cabinet in February 2023, the cumulative impact of inflation and growth in demand for statutory services by 2025/26 is forecast to exceed the anticipated increase in Government funding and council tax income by £132m. This risk is rated high in the Corporate Risk Register. The CFO and CMT are currently working with Cabinet Members to formulate a plan to ensure the budget is balanced for each of the next three years.

3.6.23 The new CIPFA Financial Management (FM) Code was formally adopted across local government from the 2021/22 financial year. The FM Code sets out the six principles of good financial management, which it then translates into a list of financial management standards which local authorities should test their conformity against.

3.6.24 The County Council has undertaken an evidence backed assessment of its compliance with all of the financial management standards in the Code. Based on this, the County Council has ascertained that it is compliant with the Code. Although compliant, the County Council will still always actively seek to make further developments and improvements as opportunities are identified for example through risk reviews and performance management.

3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.

3.7.1 The report writing guide, protocols and templates referred to in the Code of Corporate Governance and the involvement of senior directorate officers, legal officers and finance officers ensures that public reports are written in a clear and accessible way with sufficient information to enable members of the public to formulate informed opinions on the matters for decision.

3.7.2 The Corporate Performance Management Framework provides a transparent cycle of reporting on core performance metrics to the Corporate Management Team and Cabinet. Corporate performance reports are published online and are accessible to staff, partners and the public.

3.7.3 The ‘Internal Audit Charter’ is presented annually for approval by the Audit Committee. The Charter makes provision that ‘Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (i.e. the Audit Committee).’

3.7.4 The on-going work of internal audit is presented through a quarterly progress report to Audit Committee providing an overview of service performance; delivery against the plan; and progress made by the organisation in the implementation of management actions agreed to mitigate risks identified through internal audit work.

3.7.5 Representatives of External Audit routinely attend Audit Committee meetings and present all External Audit reports. Any recommendations for corrective action detailed within External Audit reports are highlighted to Members who will track through to implementation. This is achieved through the clear and concise nature of the minutes to each meeting couple with the inclusion of any overdue recommendations within the internal audit progress report.

3.7.6 The internal audit plan includes provision to review the County Council’s approach to governance, risk and controls for partnership working. Such reviews are formally reported through the Audit Committee with any significant issues highlighted accordingly.

3.7.7 Where appropriate internal audit will gain assurances from third parties to contribute to their overall assurance opinion.

3.7.8 Financial reporting complies with relevant statute, codes and good practice guidance and financial and performance information are reported consistently throughout the year alongside each other. Where relevant and appropriate performance comparisons are made to other organisations.

4 Obtain assurances on the effectiveness of key controls

4.1 Appropriate assurance statements are received from designated internal and external assurance providers.

4.2 Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and directorate level.

Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and carries out tests to confirm the level of compliance. The results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed.

4.3 This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

4.4 External sources of assurance include the annual opinion and value for money conclusion by external auditors, and statutory inspections of adults' social care services, and children's services. These reports are subject to consideration by senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.

4.5 External sources of validation are used to inform assessment of the organisation's overall performance, as part of the Corporate Performance Framework.

5 Evaluate assurances and identify gaps in control/assurance

5.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls.

5.2 The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

5.3 The Assistant Director Legal Services and Monitoring Officer and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.

5.4 One of the key elements of the Corporate Governance regime and the production of the Annual Governance Statement is the methodology applied to obtain the necessary assurance. This has included:

- a self-assessment assurance statement being completed every year by all Chief Officers giving assurance about the governance arrangements in their Directorate.
- consultation with other relevant officers throughout the County Council.

5.5 In line with the Internal Audit Charter approved by the Audit Committee in July 2021 and which is available on the County Council's website, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.

5.6 The assurance statements cover a range of Corporate Governance and performance issues which refer to the existence, knowledge and application within directorates governance policies generally.

5.7 The Internal Audit Team's work forms the basis of a report to the relevant Chief Officer or Key Corporate Manager for any follow up work necessary, and feeds into this Annual Governance Statement.

5.8 Directorate Corporate Governance assurance statements were sent out to directorates in early 2022.

6 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance.

6.1 Following the approval of the Risk Management Strategy 2022-25, the Risk Management Board will continue to drive forward achievement of the Strategy aims and objectives. This will include a particular focus on ensuring that Risk Registers are frequently reviewed to ensure that these continue to represent the key risks the County Council are managing, that the controls identified are appropriate, and there is assurance these are being managed effectively.

6.2 This will also look to ensure that there is alignment with the County Councils Corporate Resilience framework and supporting plans and to build further resilience and capability within the organisation which will safeguard our ability to provide an effective response to emerging incidents which are outside of our control. **Action Owner Stephanie Randall**

6.3 The Audit Committees Terms of Reference will be reviewed to take account of the latest guidance issued by CIPFA. **Action Owners David Kelly & Neil Pitman**

6.4 The Monitoring Officer will review the County Council's scrutiny arrangements in the light of the new Council operating structure. **Action Owner David Kelly**

6.5 Learning from the ETE experience generally, and exercise Knox specifically, Universal Services will develop a Business Continuity exercise policy over 23/24 alongside the new directorate Bronze Plan designed to ensure plans and scenarios are tested on a regular basis, and that the lessons learned from them are documented and actioned. This will likely include running the exercises developed but not used in ETE. **Action Owner-Mike Bridgeman**

6.6 Adults' Health and Care will strengthen further its approach to care governance and quality assurance by implementing a phased, internal self-assessment. This will form part of the Directorate's preparations for the Care Quality Commission's assessment of local authority social care functions, with the internal self-assessment approach aligned with the CQC Single Assessment Framework. **Action Owner – Philippa Mellish.**

6.7 The CareDirector Implementation will support the improvement in the recording of client data through:

- Data migrated to the new system will be subject to data validation rules to ensure the records are in line with Data Retention rules
- As part of the system training staff will receive reminders about GDPR and best recording practice, like good searching techniques to avoid duplicates, data quality, and their responsibilities. All CDIR users will be required to sign a new Form of Undertaking via the LMS which will record their knowledge and adherence to Data Protection law and HCC policy
- The CareDirector System includes functionality for supporting greater data quality such as:

  System setting **Required Person Searches** – this dictates the number of person searches that must be completed before a new person record can be created.

  Duplicate Detection rules – These are applied on record creation and will warn users if they might be about to create a duplicate.

  Merge records – there is functionality to merge records if duplicates are detected by the scheduled job.

The CareDirector Go-live date has been replanned for implementation in November 2023. **Action Owner Sarah Snowdon**

7 There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored.

In response to the Action Plan identified in the 2021/22 Annual Governance Statement: -

7.1 The longer-term Risk Management Strategy 2022-25 and Risk Register was approved by Cabinet in October 2022 following endorsement by CMT.

7.2 The Risk Management Board have continued to drive forward the Strategy aims and objectives, including a particular focus on implementing improvements to the corporate risk management system which incorporate renewed control effectiveness descriptions and evidence that measures are sufficient.

7.3 Work to further develop and mature the assurance framework underpinning our Corporate Strategic Risks (including ensuring alignment with our broader Corporate Resilience approach), will remain a focus for the Risk management Board in 2023.

7.4 A development resource to support staff and managers to manage risk effectively, has been developed and deployed. This included providing an update to the Audit Committee in December 2022 in relation to the corporate risk management processes and governance arrangements in place within the County Council.

7.5 A major Business Continuity exercise facilitated by Emergency Planning spanning most of the Highways service was carried out in Q3, alongside a desk-based exercise carried out by Waste and Resource Management. Exercises for DMT and admin were developed with Emergency Planning and are ready to run, but their scheduling was overtaken by the creation of Universal Services. ETE targets and participants identified for the corporate Business Continuity exercise Knox (run in Q4) were carried over into Universal Services

7.6 The Adults' Health and Care CareDirector Programme remains complex and technically challenging. To retain focus and pace the programme now has new Executive oversight by the Deputy Chief Executives, including regular assurance sessions and highlight reporting. Additional programme resource and new robust governance frameworks have been implemented alongside additional metric reporting and independent assurance role from the People and Organisation Directorate. The delivery of the programme remains a priority on the Action Plan.

7.7 Following updates being made to the EIA guidance and the introduction of a new EIA tool during 2021, the County Council continues to monitor and review these resources to ensure they remain fit for purpose, and able to effectively support directorates with their service planning.

Declaration

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are set out in this Statement.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:	Signed:
Chief Executive	Leader of the Council
Date: 2023	Date: 2023

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	27 September 2023
Title:	Statement of Accounts 2022/23
Report From:	Rob Carr, Deputy Chief Executive and Director of Corporate Operations

Contact name: Rob Sarfas

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

Purpose of this Report

1. The purpose of this report is to seek approval for the Statement of Accounts for Hampshire County Council and the Hampshire Pension Fund for the period ending 31 March 2023.

Recommendation(s)

2. That the Statement of Accounts for 2022/23 for Hampshire County Council and the Hampshire Pension Fund be approved (Appendix 3).

3. That delegated authority be given to the Deputy Chief Executive and Director of Corporate Operations to approve minor changes to the accounts agreed between the County Council and Ernst and Young (EY) prior to the issue of the final audit opinion and publication of the audited Statement of Accounts. Should any non-minor changes be required as a result of the audit of the accounts, the Statement of Accounts for 2022/23 would be brought back to the Audit Committee for review and re-approval.

4. That it is noted that the 2022/23 accounts have not yet been audited due to issues outside of the County Council's control that have resulted in a backlog of local audit opinions across the country.

5. That it is noted that the County Council will publish the unaudited accounts on its website together with a notice in accordance with regulation 10(2)(a) of the Accounts and Audit Regulations 2015 stating that it has not been able to publish the audited statement of accounts and the reasons for this.

6. That it is noted that the Letters of Representations will be signed by the Chairman of the Audit Committee and Chief Financial Officer (the Deputy Chief Executive and Director of Corporate Operations) as required by the external auditor at the conclusion of the audit.

Executive Summary

7. This report relates to the accounts and audit process for the **2022/23 Statement of Accounts** (i.e. Balance Sheet dated 31 March 2023). A report dealing with the conclusion of the 2021/22 accounts is included elsewhere on the agenda.

8. The County Council published its unaudited draft accounts for 2022/23 on 31 May 2023, allowing the period of public inspection to begin in line with the requirements of the Accounts and Audit Regulations (2015). Following the conclusion of the period of public inspection, the regulations require the County Council to consider and approve the statement of accounts. The County Council has delegated this responsibility to the Audit Committee. The Statement of Accounts for 2022/23 is included at Appendix 2.

9. The Accounts and Audit (Amendment) Regulations 2022 require the Council's audited Statement of Accounts to be published by 30 September 2023. If the audited accounts cannot be published by this date for any reason, the regulations require the County Council to publish a notice on its website. The audited accounts must then be published as soon as reasonably practicable. The audit of the 2022/23 accounts has not been completed and therefore the County Council will publish a notice under regulation 10(2)(a) stating that it has not been able to publish the statement of accounts and the reasons for this. The approved unaudited accounts will also be published on the County Council's website.

10. The audit of the 2022/23 accounts has not yet been completed due to national challenges in the local audit market that have resulted in a significant backlog in audit opinions, as has been discussed at previous meetings of the Audit Committee. This has included delays in completing the audit of the County Council's 2021/22 accounts. The 2021/22 accounts are discussed separately elsewhere on the agenda for this meeting, but in summary the conclusion of the 2021/22 audit was delayed primarily due to two technical accounting issues that arose nationally and that were not specific to the County Council's accounts.

11. Lee Rowley MP (Parliamentary Under-Secretary of State for Local Government and Building Safety) wrote to local authorities and local audit firm partners on 18 July 2023. This letter provided an update on the work conducted by the Department for Levelling Up, Housing and Communities (DLUHC) and colleagues from the Financial Reporting Council (FRC) to

address the backlog and develop a sustainable solution going forward and included a number of proposals. This followed oral evidence given to the Levelling Up, Housing and Communities Committee on 17 July 2023 as part of the inquiry into financial reporting and audit in local authorities.

12. One of the key proposals being put forward is the introduction of a series of statutory deadlines for the conclusion of delayed audits for financial years 2015/16 onwards. The intention is to reset the system as auditors will be required either (a) to complete their audits by these statutory deadlines or (b) where this is not possible, to provide as much assurance as they can and provide a limited opinion on the accounts. It is understood this may result in qualifications and disclaimers of opinion in the short term for a number of local authorities. At the time of writing, it is not known how the proposals will impact the completion of the audit of the County Council's 2022/23 accounts, as DLUHC is conducting a process of engagement and consultation prior to implementing any changes. As such, the County Council's auditors, EY, have not yet submitted their 2022/23 audit planning report to the Audit Committee.

13. The unaudited draft accounts were reviewed and signed by the Chief Financial Officer on 31 May 2023 as a true and fair view of the financial position as at 31 March 2023. Although the accounts have not yet been audited, they are being presented to the Audit Committee to allow timely discussion, scrutiny, and approval of the accounts by Members of the Committee to take place.

14. This report recommends that, if the Audit Committee approves the accounts for 2022/23 at this meeting, the authority to make minor amendments to the accounts as a result of the audit should be delegated to the Chief Financial Officer. However, if any amendments are required that are non-minor in nature, the accounts will be brought back to the Audit Committee for review and re-approval. This mirrors the approach taken for the 2021/22 accounts.

15. The County Council's accounts also include the accounts of the Hampshire Pension Fund. This is because the County Council is the Administering Authority and reporting entity for the Pension Fund, which is not a separate legal entity. EY have confirmed that they intend to conduct the audit of the Pension Fund accounts over the autumn of 2023.

Contextual information

16. The County Council is required by the Accounts and Audit Regulations (2015) to produce an annual Statement of Accounts. These accounts must be audited in accordance with the Local Audit and Accountability Act (2014).

17. The timescales for the publication of draft and audited accounts have been temporarily extended through amendments to the Accounts and Audit

Regulations over recent years due to the impact of Covid-19 and resourcing issues within the local audit sector. Despite these extended deadlines, the national picture is that the audits of a significant majority of local authority accounts were not completed on time in 2021/22.

18. Lee Rowley MP (Parliamentary Under-Secretary of State for Local Government and Building Safety) wrote to local authorities and local audit firm partners on 18 July 2023. This letter provided an update on the work conducted by the Department for Levelling Up, Housing and Communities (DLUHC) and colleagues from the Financial Reporting Council (FRC) to address the backlog and develop a sustainable solution going forward, which included a number of proposals.

19. The proposals are set out in full on the UK Parliament website of the Levelling Up, Housing and Communities Committee as part of that committee's inquiring into financial reporting and audit in local authorities: **http://committees.parliament.uk/publications/40932/documents/199432/default/**

20. In summary, the key short-term proposal being put forward by DLUHC is the introduction of a series of statutory deadlines for the conclusion of delayed audits for financial years 2015/16 onwards. The intention is to reset the system as auditors will be required either (a) to complete their audits by these statutory deadlines or (b) where this is not possible, to provide as much assurance as they can accompanied by a limited opinion on the accounts. It is understood this may result in qualifications and disclaimers of opinion in the short term for a number of local authorities.

21. Longer term the proposals focus on ways to prevent the backlog occurring again by addressing the underlying issues. This includes creating a sustainable local audit market, with the FRC working across the system:

> *"…to improve competition, capability, and supply within the audit market."*

22. The proposals will also look to:

> *"…ensure proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place."*

23. The County Council agrees with the comment in the proposals that local authority financial reporting:

"…must balance the need for adherence to financial standards against the needs of the users of local authority financial information, including ensuring the accounts are still useful and valuable to the taxpayer."

Code of Practice on Local Authority Accounting

24. The attached Statement of Accounts has been drawn up in the form prescribed by the 2022/23 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In addition, the Accounts and Audit Regulations 2015 contain certain requirements for disclosure in the Statement of Accounts.

25. The 2022/23 Code of Practice on Local Authority Accounting made changes to the application of some accounting standards but none of them have had a material impact upon the County Council's accounts. The requirement to adopt IFRS 16 (accounting for leases) from April 2022 was delayed until April 2024, although local authorities were given the option to adopt this new standard sooner. The County Council opted not to adopt the new standard until April 2024.

26. The 2022/23 Code of Practice also reflects the temporary change to the Code relating to the accounting for infrastructure assets that was introduced through an amendment to the 2021/22 Code in November 2022.

Statement of Accounts

27. The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

28. It aims to provide information so that members of the public, including electors and residents of Hampshire, Members of the County Council, partners, stakeholders and other interested parties can:

    - Understand the overall financial position of the County Council and the outturn position for 2022/23;

    - Have confidence that the public money with which the County Council has been entrusted has been used and accounted for in an appropriate manner; and

    - Be assured that the financial position of the County Council is sound and secure.

29. The unaudited accounts were reviewed and signed by the Chief Financial Officer on 31 May 2023 as a true and fair view of the financial position as at 31 March 2023. The draft accounts were published on the County Council's website in line with requirements of the regulations and enabled the commencement of the period for the exercise of public rights on or before the first working day of June 2023.

30. Following the conclusion of the period for the exercise of public rights, the Accounts and Audit Regulations require the Authority to:

    - consider, either by way of a committee or by the members meeting as a whole, the statement of accounts
    - approve the statement of accounts by a resolution at that committee or meeting
    - ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given

31. For the County Council, the responsibility for the approval of the Statement of Accounts is delegated to the Audit Committee.

32. The Statement of Accounts is audited by EY. Due to the national backlog in audit opinions outlined elsewhere in this report, EY have not yet issued their audit planning report for 2022/23 and the audit has not been concluded to enable the audited accounts to be published by the deadline of 30 September set out in the Accounts and Audit (Amendment) Regulations 2022. The County Council will therefore publish a notice on its website stating that it has not been able to publish the audited statement of accounts and the reasons for this, in accordance with the regulations.

33. An explanation of each section of the accounts is included in Appendix 1.

34. The version of the accounts attached at Appendix 2 reflects updated opening balances for 2022/23 based on the finalised version of the 2021/22 accounts. There are also other minor changes that have been picked up since the draft accounts were published on 31 May**.**

Accounting for Infrastructure Assets

35. Note 19 of the accounts provides details of the County Council's Property, Plant and Equipment (PPE) assets. Within this note is an explanation of how the County Council has applied the statutory instrument and temporary changes to the CIPFA Code of Practice relating to the accounting for infrastructure assets.

36. As part of implementing this change, the County Council has evaluated and updated the estimation process for the useful economic lives of infrastructure assets. Previous analysis resulted in a single weighted average 20 year life, which has been used to calculate depreciation for a number of years. The most recent analysis means that the County Council is amending the useful lives used for calculating depreciation from 2022/23 to 120 years for bridges and 25 years for all other infrastructure assets.

37. This split enables the County Council to provide a more relevant representation in respect of the higher useful life of bridges compared to other infrastructure assets and any fluctuations in replaced components. For other infrastructure assets, analysis supports the continued use of a weighted average of all components rather than depreciating components separately as the difference in depreciation if calculated using componentisation would not be material.

38. The amended regulations and statutory override mean authorities do not need to retrospectively change their assessment of infrastructure asset values from previous years and the updated asset lives and associated depreciation of outstanding balances will therefore apply from 2022/23 onwards rather than retrospectively.

Hampshire Pension Fund

39. The Statement of Accounts also includes the accounts of the Hampshire Pension Fund. This is because the County Council is the Administering Authority and reporting entity for the Pension Fund, which is not a separate legal entity.

Annual Governance Statement

40. In accordance with regulations, the Annual Governance Statement (AGS) must accompany the published Statement of Accounts. The AGS is also presented elsewhere on the agenda for this meeting with the recommendation that it is approved by the Audit Committee.

Period of Public Inspection of the Accounts

41. In accordance with legislation, the County Council published a notice of public rights to:

    - inspect the accounting records for the financial year ended 31 March 2023
    - make copies of all or any books, deeds, contracts, bills, vouchers, receipts and other documents relating to the accounting records

- question the auditors about the accounts.

41. The specified period was from 1 June to 12 July 2023. No requests or questions were received during this period.

Letters of Representation

42. As part of the production and audit of the final accounts, the external auditors also require the Deputy Chief Executive and Director of Corporate Operations (the Chief Financial Officer) and Chairman of Audit Committee to provide Letters of Representations for the County Council and Pension Fund.

43. The letters provide additional assurance that all matters have been disclosed to the auditors and that no undue influence has been applied in producing the accounts that would prevent them giving a true and fair view of the financial position.

44. These letters will follow at the conclusion of the audit.

Consultation and Equalities

45. The Statement of Accounts summarises the financial transactions incurred following the approved revenue budget and capital programme. Consultation on the budget is undertaken when the County Council considers savings to help balance the budget. All savings proposals put forward by the County Council have an Equality Impact Assessment published as part of the formal decision-making papers and for some proposals stage 2 consultations are undertaken before a final decision is made by the relevant Executive Member.

46. The Accounts and Audit (Amendment) Regulations 2022 require the County Council's Statement of Accounts to be approved and the audited statement of accounts published by 30 September 2023, or where this is not possible to publish a notice stating that it has not been able to publish the audited statement of accounts and the reasons for this. This report deals with this statutory requirement, which is a financial reporting matter, and therefore no consultation or Equality Impact Assessments are required.

Climate Change Impact Assessment

47. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts 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.

48. In managing its financial resources, climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. This report deals with the statutory requirement to approve and publish a Statement of Accounts, which is a financial reporting matter and there are therefore no further climate change impacts as part of this report.

Conclusions

49. The Statement of Accounts for 2022/23 for Hampshire County Council and the Hampshire Pension Fund have been prepared in accordance with legislative and regulatory requirements. The presentation and approval of the annual accounts is an important part of the overall governance framework for the County Council and Pension Fund and the Audit Committee is therefore requested to consider and approve the accounts, noting that the audit has not yet taken place due to the national backlog in local audit opinions and associated work being led by DLUHC to resolve these issues. Given that the accounts have not yet been audited, they will be brought back to the Audit Committee for review and re-approval if the audit results in any non-minor changes being required to the accounts.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

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:**

There are no new proposals in this report requiring an assessment

Appendix 1

Narrative report

1. The narrative report provides information about the key issues affecting the County Council and reports on the County Council's financial and non-financial performance, risks and future prospects.

2. The narrative report is designed to help readers understand the County Council and its operating environment and to assist in the understanding and interpretation of the Statement of Accounts.

3. It explains how the required accounting presentation relates to the financial performance of the County Council as set out in the end of year financial report, which was presented to Cabinet and County Council on 18 July and 20 July 2023 respectively.

Statement of Responsibilities for the Statement of Accounts

4. The statement records the responsibility:
   - of the local authority to appoint an officer with the responsibility for the proper administration of its financial affairs. Within the County Council, this is the Deputy Chief Executive and Director of Corporate Operations
   - of the Deputy Chief Executive and Director of Corporate Operations to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present a true and fair value of the authority
   - of the Chairman of the Audit Committee to confirm that the accounts have been considered and approved by the committee.

Movement in Reserves Statement

5. This statement sets out the movement in the year on the different reserves held by the County Council, analysed into 'useable reserves' (cash-backed reserves which can be applied to fund expenditure or reduce council tax) and 'unusable reserves' (not cash-backed which are mainly used for accounting adjustments).

Balance Sheet

6. This shows the value of the assets and liabilities recognised by the County Council. The net assets of the County Council are matched by reserves, either usable or unusable.

Cash flow statement

7. The cash flow statement is designed to demonstrate the changes that have taken place in the County Council's cash position over the year and to highlight the causes of these changes.

Comprehensive Income and Expenditure Statement

8. This statement shows the accounting cost of providing services rather than the amount funded from taxation. The taxation position is shown in the Movement in Reserves Statement and the difference between them is summarised in the Expenditure and Funding Analysis (note 1) and then itemised in note 2.

9. The bottom line figure on the Comprehensive Income and Expenditure Statement is equal to the change in net worth on the Balance Sheet, although it is the Movement in Reserves Statement that shows the impact of the County Council's activities on its revenue budget and therefore the Council Tax payer.

Notes to the accounts

10. These comprehensive notes incorporate further information to support the reader of the accounts. The accounting policies are incorporated within the relevant disclosure notes, with the general policies included towards the end of the notes.

Hampshire Pension Fund

11. The Statement of Accounts also includes the accounts of the Hampshire Pension Fund. This is because the County Council is the Administering Authority and reporting entity for the Pension Fund, which is not a separate legal entity.

12. The accounts for the Pension Fund provide details of contributions and benefits payable during the year, management expenses, and returns on investments during the year as part of the Fund Account. This results in a change in net assets of the scheme, reflected in the Net Asset Statement at 31 March 2023. The Net Asset Statement predominantly comprises investment asset balances in addition to other assets and liabilities.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	27th September 2023
Title:	Annual Treasury Outturn Report 2022/23
Report From:	Deputy Chief Executive and Director of Corporate Operations

Contact name: Daniel O'Rourke

Tel: 0370 779 1728 **Email:** Daniel.O'Rourke@hants.gov.uk

Purpose of the Report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021. The CIPFA Code requires the County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2022/23.

Recommendations

- That the Audit Committee notes the report that has been presented to Cabinet.

Executive Summary

2. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2022/23.

3. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2023. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification,

monitoring and control of risk are therefore central to the County Council's treasury management strategy.

4. Treasury management in the context of this report is defined as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5. This annual report sets out the performance of the treasury management function during 2022/23, to include the effects of the decisions taken and the transactions executed in the past year.

6. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2022/23, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.

7. The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2023.

External Context

8. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2022/23.

Economic commentary

9. The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March 2023 period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

10. Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

11. Starting the 2022/23 financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October 2022. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February 2023. Annual headline CPI registered 10.4% in February, up from 10.1% in January 2023, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October 2022. In February 2023 RPI measured 13.8%, up from 13.4% in the previous month.

12. Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April 2023.

13. The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December 2022. The most recent information for the period December-February 2023 showed an unemployment rate of 3.7%.

14. The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December 2022 and February 2023 and then 25bps in March 2023, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

Financial markets

15. Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the financial year, fears around the health of the banking system following the collapse of Silicon Valley Bank (SVB) in the US and purchase of Credit Suisse by UBS caused further volatility.

Credit review

16. Credit Default Prices had been rising since the start of the financial year on the back of the invasion of Ukraine, and in the UK rose further in September/October 2022 at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the year as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

17. On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

18. As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the County Council's counterparty list recommended by Arlingclose remains under constant review.

Local Context

19. At 31 March 2023, the County Council's underlying need to borrow for capital purposes was £749.66m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £1,111.73m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/22 Balance £m**	**Movement £m**	**31/03/23 Balance £m**
CFR	780.32	(30.66)	749.66
Less: Other debt liabilities*	(129.06)	7.66	(121.4)
Borrowing CFR	**651.26**	**23.00**	**628.26**
External Borrowing	(295.00)	43.48	(251.53)
Internal Borrowing	**356.26**	**20.48**	**376.74**
Less: Usable Reserves	(882.15)	37.97	(844.19)
Less: Working Capital	(150.19)	(117.35)	(267.54)
Net Investments	**(676.08)**	**(58.91)**	**(734.99)**

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

20. The CFR decreased by £30.66m during 2022/23. Other debt liabilities reduced

by £7.66m in accordance with the PFI repayment models while the County Council's borrowing CFR decreased by £23m. External borrowing reduced by £43.48m during 2022/23 as a result of repayment of £49.1m of Treasury Management borrowing, partly offset by a change in the short-term balances held on behalf of other organisations, which vary from year to year. At the end of 2022/23 the total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the Dedicated Schools Grant (DSG) deficit, total £845m; a decrease of £37.97m on the previous year. Of this net reduction, £34m relates to the net draw from directorate reserves used for a number of purposes including cash flow funding for delayed savings, funding to offset inflation and demand pressures and planned investment in services, £25.9m was drawn from the Budget Bridging Reserve in line with the plan to support the budget ahead of the Savings Programme for 2023 and contributions to other reserves including £5m for future capital payments, £3m revenue grants and £9.8m capital grants received ahead of the planned relevant expenditure. The balance also includes reserves held on behalf of individual schools which decreased by £2.6m in 2022/23.

21. The County Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2023 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	**31/03/22 Balance £m**	**Movement £m**	**31/03/23 Balance £m**	**31/03/23 Rate %**
Long-term borrowing	(241.2)	49.1	(192.1)	4.62
Short-term borrowing	(8.0)	0.0	(8.0)	5.34
Total borrowing	**(249.2)**	**49.1**	**(200.1)**	**4.65**
Long-term investments	220.6	17.9	238.5	3.96
Short-term investments	439.0	(287.2)	151.8	3.66
Cash and cash equivalents	22.4	327.3	349.7	4.03
Total investments	**682.0**	**58.0**	**740.0**	**3.93**
Net investments	**432.8**	**107.1**	**539.9**	

Note: the figures in Table 2 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments. Borrowing figures exclude short term balances held on behalf of others.

22. The increase in net investments of £107.1m shown in Table 2 reflects an increase in investment balances of £58m in conjunction with repayment at maturity of borrowing of £8.1m and early repayment of borrowing of £41m, in line with the County Council's policy on internal borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

Borrowing Update

23. The County Council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

24. The County Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB, however there are no plans to take on any new external borrowing.

25. Further, the County Council has and may continue to invest in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the County Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the County Council's aim of protecting reserves from high inflation.

26. The County Council is a net investor and as stated in the Treasury Management Strategy 2023/24, the County Council expects a negative liability benchmark across the forecast period, meaning that 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. Given the favourable change in the interest rate environment, after consultation with its advisor – Arlingclose, £41m of external borrowing was repaid early during 2022/23.

Borrowing Strategy

27. At 31 March 2023 the County Council held £200.1m of loans (a decrease of £49.1m from 31 March 2022) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing position	**31/03/22 Balance £m**	**Net movement £m**	**31/03/23 Balance £m**	**31/03/23 Weighted average rate %**	**31/03/23 Weighted average maturity (years)**
Public Works Loan Board	(208.0)	20.0	(188.0)	4.7	8.8
Banks (LOBO)	(20.0)	16.0	(4.0)	4.8	11.6
Other (fixed term)	(21.2)	13.1	(8.1)	3.9	16.6
Total borrowing	**(249.2)**	**49.1**	**(200.1)**	**4.7**	**9.2**

Note: the figures in Table 3 are from the balance sheet in the County Council's statement of accounts but adjusted to exclude short term balances held on behalf of others, and accrued interest.

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

29. The County Council has considered it to be more cost effective in the near term to use internal resources than to use additional external borrowing. In line with this strategy, £8m of PWLB loans were allowed to mature without refinancing and a further £0.1m of other borrowing was repaid which related to Salix loans (this is interest-free Government funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills).

30. As a result of the changes to interest rates £41m of loans were repaid early in 2022/23 following consultation with Arlingclose. This consisted of £12m of PWLB loans, £16m of LOBO (Lender's Option Borrower's Option) loans, and £13m of other fixed term loans (former LOBOs).

31. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

32. The County Council continues to hold £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year.

Treasury Investment Activity

33. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

34. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held for specific purposes. During the year, the County Council's investment balances ranged between £670m and £866m due to timing differences between income and

expenditure. The year-end investment position and the year-on-year change are shown in Table 4. As at the 31 March the County Council was holding significant balances in overnight Money Market Funds in order that it could pay three years of employer pension contributions at the start of the new financial year.

Table 4: Treasury investment position	**31/03/2022 Balance £m**	**Net movement £m**	**31/03/2023 Balance £m**	**31/03/23 Income return %**	**31/03/23 Weighted average maturity (years)**
Short term investments					
Banks and Building Societies:					
- Unsecured	83.0	(44.2)	38.8	3.78	0.12
- Secured	93.5	(83.5)	10.0	4.24	0.03
Money Market Funds	21.4	284.6	306.0	4.08	0.00
Government:					
- Local Authorities	203.5	(125.5)	78.0	3.64	0.58
- UK Gilts	12.0	(12.0)	0.0	0.00	0.00
- UK Treasury Bills	28.0	30.7	58.7	3.87	0.16
- Supranational	10.0	(10.0)	0.0	0.00	0.00
Cash Plus funds	10.0	0.0	10.0	1.65	0.01
Total	**461.4**	**40.1**	**501.5**	**3.92**	**0.12**
Long term investments					
Banks and Building Societies:					
- Secured	10.0	17.2	27.2	2.32	2.51
Government:					
- Local Authorities	5.0	(5.0)	0.0	0.00	0.00
Total	**15.0**	**12.2**	**27.2**	**2.32**	**2.51**
Long term investments – higher yielding strategy					
Government:					
- Local Authorities	22.4	0.9	23.3	5.21	10.04
Pooled Funds:					
- Pooled property*	75.0	0.0	75.0	3.51	N/A
- Pooled equity*	50.0	1.0	51.0	5.42	N/A
- Pooled multi-asset*	48.0	0.5	48.5	4.52	N/A
Total	**195.4**	**2.4**	**197.8**	**4.45**	**10.04**

Table 4: Treasury investment position	**31/03/2022 Balance £m**	**Net movement £m**	**31/03/2023 Balance £m**	**31/03/23 Income return %**	**31/03/23 Weighted average maturity (years)**
Total investments	**671.8**	**54.7**	**726.55**	**3.93**	**0.54**
Thames Basin Heaths pooled fund investments	10.2	3.3	13.5		
Total	**682.0**	**58.0**	**740.0**		

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2023 based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

35. The CIPFA Code and government guidance both require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside managing the risk of receiving unsuitably low investment income. The County Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.

36. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The County Council invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.

37. The County Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2023 and at the same date in 2022 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	Credit rating	Bail-in exposure %	Weighted average maturity (days)	Rate of return %
31.03.2022	AA-	21	302	0.63
31.03.2023	AA-	64	241	4.04
Similar LAs	AA-	42	1,894	3.38
All Las	A+	59	12	3.67

Table 5 shows the average credit rating of the portfolio has remained consistent at AA-. Bail-in exposure has increased as a result of holding higher liquid balances. A significant proportion of which were used to pay pension contributions which were due on 1st April 2023, removing some of the risk, and which is further mitigated by the fact that a high percentage of the County Council's liquid balances are invested in money market funds, which are technically exposed to bail-in risk but are diversified products and are considered by Arlingclose to be 'bail-in risk light'. The County Council otherwise compared favourably with the other local authorities included in the benchmarking exercise across all other metrics.

Externally managed pooled funds

38. In 2019 the County Council agreed to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. This allocation was increased to £250m as part of the Capital and Investment Strategy for 2021/22 and the approach to investing this allocation was most recently set out in the Treasury Management Strategy Statement for 2023/24, with a recommendation to increase the allocation further to £320m, if opportunities allowed and total cash balances were sufficiently high.

39. Approximately £211m of this allocation has now been invested, with the remaining balance earmarked. The total includes £13.5m 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.

40. 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.

41. The negative correlation between bonds and equities, which had featured for some years, turned positive in 2022 as both bonds and equities sold off simultaneously against an outlook of sticky inflation and high interest rates. Simultaneously, tighter financial conditions, higher bond yields and challenges in some segments of commercial real estate (e.g. offices post-COVID, high street shops and shopping centres) saw commercial property values fall during 2022, with a large fall in the final calendar quarter.

Table 6 – Higher yielding investments – market value performance	**Amount invested***	**Market value at 31/03/23**	**Gain/(fall) in capital value**	
			Since purchase	**2022/23**
	£m	**£m**	**£m**	**£m**
Pooled property funds	75.0	72.1	(2.9)	(13.9)
Pooled equity funds	51.0	53.9	2.9	(1.9)
Pooled multi-asset funds	48.5	43.1	(5.4)	(4.1)
Total pooled funds	**174.5**	**169.1**	**(5.4)**	**(20.0)**
Fixed deposits	20.0	20.0	0.0	0.0
Total higher yielding	**194.5**	**189.1**	**(5.4)**	**(20.0)**

* excludes £13.5m invested on behalf of Thames Basin Heaths JSPB

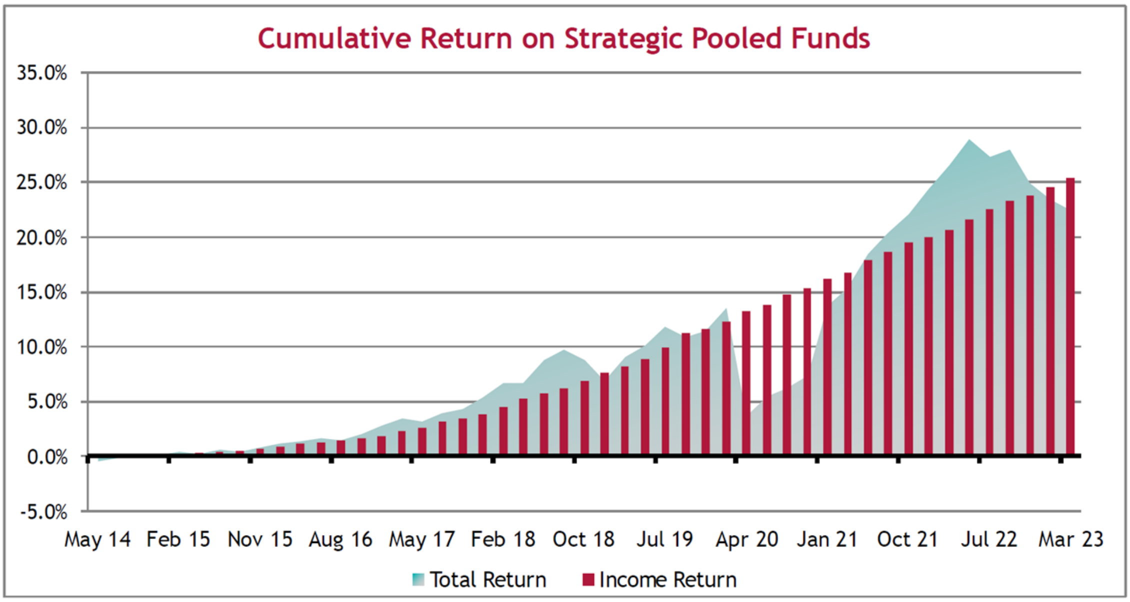
42. The County Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.15% pa since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 22.9%.

Table 7 – Higher yielding investments – income and total returns since purchase (from 2014)	**Annualised income return**	**Total return since purchase (from 2014)**
	%	**%**
Pooled property funds	3.88	25.1
Pooled equity funds	4.78	38.0
Pooled multi-asset funds	3.93	5.3
Total pooled funds	**4.15**	**22.9**

Note: excludes the performance related to £13.5m invested on behalf of Thames Basin

Heaths JSPB

43. The margin between cash and non-cash (pooled fund) investments was negligible by the end of March 2023. The existing allocation of £174.5m to pooled funds has provided good income returns for the County Council (as shown in the return figures above), mostly in contrast to very low interest rates prior to 2022. This allocation will continue to provide protection against a return to lower interest rates but the position remains under review with the assistance of Arlingclose.



Note: the graph above excludes the performance related to £13.5m invested on behalf of Thames Basin Heaths JSPB

44. 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. As a result, 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 which equates to 3.5% of the actual allocation to pooled investments of £174.5m (currently above the aim to hold reserves of 2.5%).

45. The Department for Levelling Up, Housing & Communities (DLUHC) published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and

therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charged to the revenue account, and must be taken into an unusable reserve account.

Financial Implications

46. The outturn for debt interest paid in 2022/23 was £11.9m against a budgeted £11.4m on an average debt portfolio of £214.3m.

47. The outturn for investment income received in 2022/23 was £18.3m on an average investment portfolio of £778.6m giving a yield of 2.49%. By comparison, investment income received in 2021/22 was £10.43m on an average portfolio of £708m with a yield of 1.47%.

Non-Treasury Investments

48. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

49. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

50. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.

51. The County Council's existing non-treasury investments are listed in Table 8..

Table 8 – Non-treasury investments	31/03/23 Asset value £m	31/03/23 Rate %
Hampshire County Council:		
Loans to Hampshire based business	4.5	4.00
On behalf of Enterprise M3 LEP:		
Loans to Hampshire based business	12.2	2.33
Total non-treasury investments	**16.7**	**2.78**

Compliance Report

52. The County Council confirms compliance of all treasury management activities undertaken during 2022/23 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.

53. Compliance with the authorised limit and operational boundary for external treasury management debt, is demonstrated in Table 9.

Table 9 – Debt limits	2022/23 Maximum £m	31/03/23 Actual £m	2022/23 Operational Boundary £m	2022/23 Authorised Limit £m	Complied?
Borrowing	247	200	750	785	✓
PFI and Finance Leases	129	121	145	150	✓
Total debt	**376**	**321**	**895**	**935**	✓

54. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However this limit was not breached during the financial year.

Treasury Management Indicators

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

Interest rate exposures

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

Table 10 – Interest rate risk indicator	31/03/23 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates		
Investment	£389m	+/- £3.9m
Borrowing	£7m	+/-£0.1m

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

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

Table 11 – Refinancing rate risk indicator	31/03/23 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	7%	50%	0%	✓
12 months and within 24 months	5%	50%	0%	✓
24 months and within 5 years	13%	50%	0%	✓
5 years and within 10 years	29%	75%	0%	✓
10 years and within 20 years	46%	75%	0%	✓
20 years and within 30 years	0%	75%	0%	✓
30 years and above	0%	100%	0%	✓

58. The County Council holds £4m 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. If not repaid before maturity, this loan has a duration to maturity of just over 11 years.

Principal sums invested for periods longer than a year

59. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 12 – Price risk indicator	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£239m	£239m	£231m
Limit on principal invested beyond year end	£330m	£400m	£400m
Complied?	✓	✓	✓

60. The table includes investments in strategic pooled funds of £183m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

Consultation, Equalities and Climate Change Impact Assessment

61. This report deals with the treasury management outturn position for 2022/23, which is an end of year reporting matter and therefore no consultation or Equality Impact Assessments are required.

62. 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.

63. This report deals with the outturn position for the treasury management aspect of the County Council's business. 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.

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

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.

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:

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

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	27th September 2023
Title:	2023/24 Q1 Treasury Management Report
Report From:	Deputy Chief Executive and Director of Corporate Operations

Contact name: Daniel O'Rourke

Tel: 0370 779 1728 **Email:** Daniel.O'Rourke@hants.gov.uk

Purpose of the Report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021 which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

2. This quarterly report provides an additional update and includes the new requirement in the 2021 Code, mandatory from 1st April 2023, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal quarterly revenue and capital monitoring reports.

Recommendations

3. Audit Committee are asked to note the review of treasury management activities in Q1 2023/24.

Executive Summary

4. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2023/24.

5. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2023. The County Council has borrowed and invested sums of money and is therefore

exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's treasury management strategy.

6. Treasury management in the context of this report is defined as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

7. This report sets out the performance of the treasury management function during Q1 2023/24, to include the effects of the decisions taken and the transactions executed in the first three months of the financial year.

8. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2023/24, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.

9. The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2023.

External Context

10. The following sections outline the key economic themes in the UK against which investment and borrowing decisions have been made so far in 2023/24.

Economic commentary

11. From the start of the quarter until May it looked like peak global monetary policy rates were in sight as inflation continued to ease and central banks turned more dovish in tone. Only a few weeks later, stronger and more persistent inflation data, particularly in the UK, changed the picture. Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

12. Inflation fell from its peak of 11.1% reached in October 2022, but annual

headline CPI in May 2023 was higher than the consensus forecast at 8.7% (8.4% expected), largely driven by services inflation, while the annual measure of underlying core inflation rose to 7.1% from 6.8%.

13. After a sharp rise in interest rate expectations, with clearly serious implications for mortgage markets due to higher inflation and wage data, the Bank of England's Monetary Policy Committee reaccelerated monetary policy tightening over the period with a 0.25% rise in May to a 0.5% rise in June, taking the Bank Rate to 5.0%. At both meetings the vote was 7-2 in favour of increasing rates, with the two dissenters preferring to keep rates on hold.

14. Interest rate expectations priced in further hikes in policy rates. Arlingclose, the authority's treasury adviser, revised its forecast to include a further 0.5% of monetary tightening to take Bank Rate to 5.5%. The risks, however, are that rates could be higher; financial markets are forecasting policy interest rates above 6%.

15. With many mortgages at low fixed rates now systematically being re-set over the next 12-24 months at higher rates there has been a lagged effect of the feed through of monetary policy on households' disposable income. The economic slowdown is expected to develop over time and therefore, despite the GfK measure of consumer confidence improving to -24 in June, it is likely confidence will be negatively affected at some point. The manufacturing sector contracted during the quarter according to survey data, which will eventually feed into services, whose expansion is slowing.

Financial markets

16. Financial market sentiment and bond yields remained volatile, the latter continuing their general upward trend as uncertainty and concern over higher inflation and higher interest rates continued to dominate.

17. Gilt yields rose over the period. The 5-year UK benchmark gilt yield rose from 3.30% to 4.67%, the 10-year gilt yield from 3.43% to 4.39%, and the 20-year yield from 3.75% to 4.51%.

Credit review

18. Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March 2023 Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and

Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

19. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress but made no changes to the counterparty list or recommended durations over the quarter. Nevertheless, heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

Local Context

20. At 31 March 2023, the County Council's underlying need to borrow for capital purposes was £749.7m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £1,111.7m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/23 Balance £m**	**31/03/24 Forecast £m**
CFR	749.7	748.1
Less: Other debt liabilities*	(121.4)	(113.2)
Borrowing CFR	**628.3**	**634.9**
External Borrowing	(251.5)	(177.5)
Internal Borrowing	**376.7**	**457.4**
Less: Balance sheet resources	(1,111.7)	(1,126.3)
Net Investments	**(735.0)**	**(668.9)**

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

21. The County Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2023 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	31/03/23 Balance £m	Movement £m	30/06/23 Balance £m	30/06/23 Rate %
Long-term borrowing	(192.1)	20.1	(172.0)	4.63
Short-term borrowing	(8.0)	0.0	(8.0)	5.34
Total borrowing	**(200.1)**	**20.1**	**(180.0)**	**4.66**
Long-term investments	238.5	40.8	279.3	4.32
Short-term investments	151.8	5.0	156.8	4.00
Cash and cash equivalents	349.7	(305.7)	44.0	4.66
Total investments	**740.0**	**(259.9)**	**480.1**	**4.25**
Net investments	**539.9**	**(239.8)**	**300.1**	

Note: the figures in Table 2 are from the balance sheet in the County Council's accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments. Borrowing figures exclude short term balances held on behalf of others.

22. The decrease in net investments of £239.8m shown in Table 2 reflects a decrease in investment balances of £259.9m, largely due to the prepayment of three years' worth of employer pension contributions on 1st April, in conjunction with early repayment of borrowing of £20.1m in line with the County Council's policy on internal borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

Borrowing Update

23. The County Council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

24. The County Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB, however there are no plans to take on any new external borrowing.

25. Further, the County Council has and may continue to invest in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the County Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the County Council's aim of protecting reserves from high inflation.

26. The County Council is a net investor and as stated in the Treasury Management Strategy 2023/24, the County Council expects a negative liability

benchmark across the forecast period, meaning that 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.

Borrowing Strategy

27. At 30 June 2023 the County Council held £180m of loans (a decrease of £20.1m from 31 March 2023) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing position	**31/03/23 Balance £m**	**Net movement £m**	**30/06/23 Balance £m**	**30/06/23 Weighted average rate %**	**30/06/23 Weighted average maturity (years)**
Public Works Loan Board	(188.0)	20.0	(168.0)	4.69	7.8
Banks (LOBO)	(4.0)	0.0	(4.0)	4.75	11.3
Other (fixed term)	(8.1)	0.1	(8.0)	3.92	16.5
Total borrowing	**(200.1)**	**20.1**	**(180.0)**	**4.66**	**8.3**

Note: the figures in Table 3 are from the balance sheet in the County Council's accounts but adjusted to exclude short term balances held on behalf of others, and accrued interest.

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

29. The County Council has considered it to be more cost effective in the near term to use internal resources than to use additional external borrowing and as a result of the changes to interest rates £20m of PWLB loans were repaid early in 2023/24 following consultation with Arlingclose.

30. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

31. The County Council continues to hold £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year to date.

Treasury Investment Activity

32. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

33. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held for specific purposes. During the year, the County Council's investment balances ranged between £473.6m and £621.4m due to timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Treasury investment position	**31/03/2023 Balance £m**	**Net movement £m**	**30/06/2023 Balance £m**	**30/06/23 Income return %**	**30/06/23 Weighted average maturity (years)**
Short term investments					
Banks and Building Societies:					
- Unsecured	38.8	(23.8)	15.0	4.29	0.06
- Secured	10.0	(10.0)	0.0	0.00	0.0
Money Market Funds	306.0	(262.0)	44.0	4.66	0.00
Government:					
- UK Treasury Bills	58.7	(14.9)	43.8	4.37	0.19
- Local Authorities	78.0	10.0	88.0	3.98	0.49
Cash Plus funds	10.0	0.0	10.0	2.22	0.00
Total	**501.5**	**(300.7)**	**200.8**	**4.15**	**0.26**
Long term investments					
Banks and Building Societies:					
- Secured	7.2	5.7	12.9	5.12	2.12
Government:					
- Supranational	20.0	35.0	55.0	2.94	3.36
Total	**27.2**	**40.7**	**67.9**	**3.36**	**3.12**
Long term investments – higher yielding strategy					
Government:					
- Local Authorities	23.3	0.1	23.4	5.31	9.74

Table 4: Treasury investment position	31/03/2023 Balance £m	Net movement £m	30/06/2023 Balance £m	30/06/23 Income return %	30/06/23 Weighted average maturity (years)
Pooled Funds:					
- Pooled property*	75.0	0.0	75.0	3.35	N/A
- Pooled equity*	51.0	0.0	51.0	6.14	N/A
- Pooled multi-asset*	48.5	0.0	48.5	4.69	N/A
Total	**197.8**	**0.1**	**197.9**	**4.32**	**9.74**
Total investments	**726.5**	**(259.9)**	**466.6**	**4.25**	**1.03**
Thames Basin Heaths pooled fund investments	13.5	0.0	13.5		
Total	**740.0**	**(259.9)**	**480.1**		

* The rates provided for pooled fund investments are reflective of annualised income returns based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the County Council's accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

34. The decrease in investment balances since the year end can primarily be attributed to the prepayment of three years' worth of employer pension contributions, totalling £264.2m, in early April 2023.

35. The CIPFA Code and government guidance both require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside managing the risk of receiving unsuitably low investment income. The County Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.

36. As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term investor and treasury investments therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

37. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below. The figures below show that the County Council is earning a higher rate of return than

comparable Local Authorities but at a low level of risk.

Table 5: Investment benchmarking (excluding pooled funds)	Credit rating*	Bail-in exposure %	Weighted average maturity (days)	Rate of return %
31.03.2023	AA-	64	241	4.04
30.06.2023	AA-	21	621	4.35
Similar LAs	AA-	42	1,940	4.05
All LAs	A+	63	11	4.44

* Credit ratings are taken from the three main ratings agencies; Fitch, Moody's and S&P

Externally managed pooled funds

38. In 2019 the County Council agreed to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. This allocation was increased to £250m as part of the Capital and Investment Strategy for 2021/22 and the approach to investing this allocation was most recently set out in the Treasury Management Strategy Statement for 2023/24, with a recommendation to increase the allocation further to £320m, if opportunities allowed and total cash balances were sufficiently high.

39. Approximately £211m of this allocation has now been invested, with the remaining balance earmarked. The total includes £13.5m 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.

40. As at 30th June 2023, £174.5m of the Authority's high yield investments was invested in externally managed strategic pooled funds, where the Council could afford exposure to short term variations in capital values in order to generate higher income returns. These funds have generated an average total return of 22.74% since purchase.

41. Financial market conditions were volatile during the quarter, but favourable in some areas. Resilient economic data, which led to diminishing talk of recessions at a time when interest rate peaks are thought to be near initially helped UK, euro-area and US equity markets. However, UK equities fell in May (sterling's strength weighed on some sectors) and ended the quarter marginally lower. Eurozone equities were slightly higher but did not match the larger global rally in US equities (helped by a soft-landing scenario for the economy and enthusiasm over AI) and Japanese equities.

42. UK property markets continued to struggle as higher interest rates and bond yields and higher funding costs weighed on the sector. There was some improvement in May, building on signs of returning investor interest and transactional activity in calendar Q1 and a perception that the downturn in commercial real estate may be bottoming out. This has helped support capital values and rental income. The additional move upwards in yields in late May/June and the prospect of sluggish economic growth however constrain the outlook.

43. The combination of the above had a marginal negative effect on the combined value of the Authority's funds since March 2023. Income returns remained broadly consistent, but capital values have decreased particularly in the County Council's pooled property and multi-asset funds.

44. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium-to long-term investment objectives are regularly reviewed. Having take advice from Arlingclose as a result of the changes in the interest rate environment providing similar (and in some cases better) returns on more liquid investments, the County Council has sought to disinvest £68.0m of its pooled fund holdings in Quarter 2, crystallising a net capital gain of £3.9m. Capital gains made from this disinvestment will be transferred to the Investment Risk Reserve, in order to mitigate any potential losses on future disinvestment should they arise.

45. In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for 2 years until 31st March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

Non-Treasury Investments

46. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

47. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition

of investments to include all such assets held partially or wholly for financial return.

48. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.

49. The County Council's existing non-treasury investments are valued annually, and their valuations as at 31st March 2023 are listed in Table 6.

Table 6 – Non-treasury investments	**31/03/23 Asset value £m**	**31/03/23 Rate %**
Hampshire County Council:		
Loans to Hampshire based business	4.5	4.00
On behalf of Enterprise M3 LEP:		
Loans to Hampshire based business	12.2	2.33
Total non-treasury investments	**16.7**	**2.78**

Compliance Report

50. The County Council confirms compliance of all treasury management activities undertaken during the quarter with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.

51. Compliance with specific investment limits is demonstrated in Table 7 below.

Table 7 – Investment limits	**2023/24 Maximum £m**	**30/06/23 Actual £m**	**2023/24 Authorised Limit**	**Complied**
The UK Government	63.8	43.8	n/a	✓
Local authorities & other government entities	108	108	Unlimited	✓
Secured investments	55	55	Unlimited	✓
Banks (unsecured)	15	15	Unlimited	✓
Building societies (unsecured)	0	0	£90m	✓

Registered providers	0	0	£90m	✓
Money market funds	240.5	35.5	Unlimited	✓
Strategic pooled funds	188	188	£450m	✓
Real estate investment trusts	0	0	£90m	✓
Other investments	0	0	£90m	✓

52. Compliance with the authorised limit and operational boundary for external treasury management debt, is demonstrated in Table 8.

Table 8 – Debt limits	**Q1 2023/24 Maximum** **£m**	**30/06/23 Actual** **£m**	**2023/24 Operational Boundary £m** **£m**	**2023/24 Authorised Limit** **£m**	**Complied**
Borrowing	251.0	250.4	745	780	✓
PFI and Finance Leases	121.4	121.4	135	140	✓
Total debt	**372.4**	**371.8**	**880**	**920**	✓

53. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However this limit was not breached during the financial year.

Treasury Management Indicators

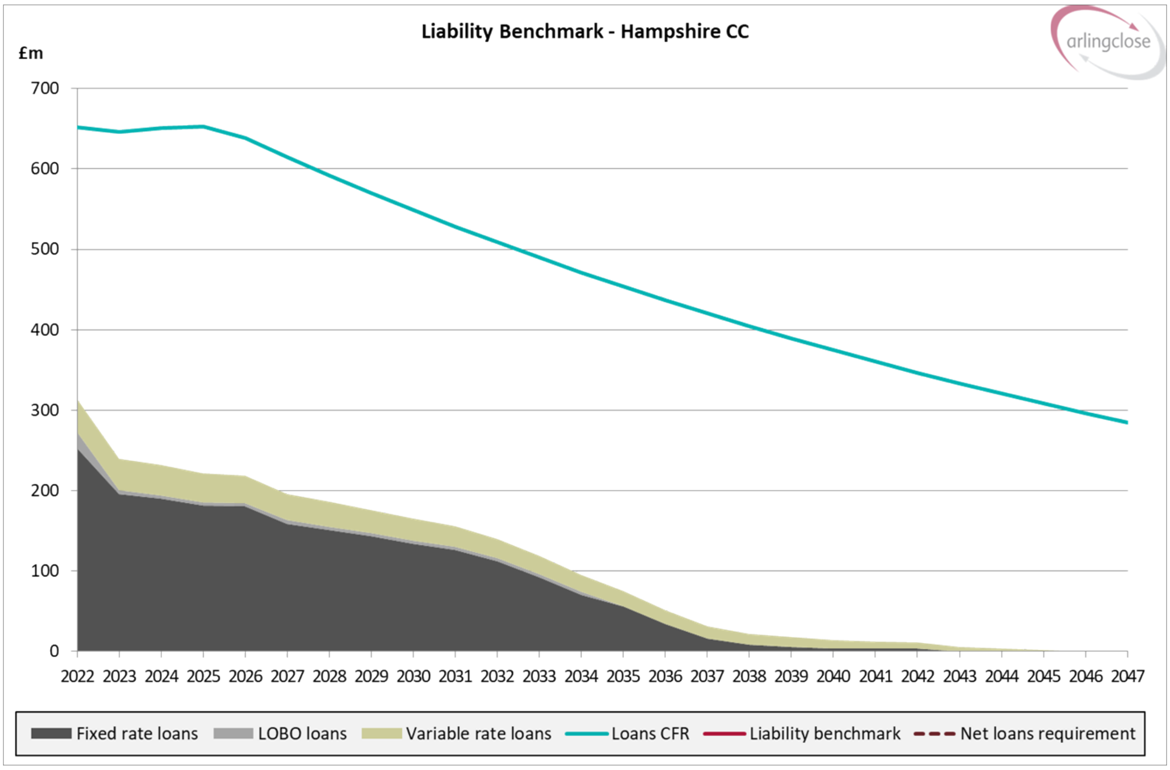
54. The County Council measures and manages its exposures to treasury management risks using the following indicators.

Liability benchmark

55. This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping

treasury investments at the minimum level required to manage day-to-day cash flow.

	31/03/2023 Actual £m	31/03/2024 Forecast £m	31/03/2025 Forecast £m	31/03/2026 Forecast £m
Loans CFR	628.3	633.3	365.3	620.2
Less: Balance sheet resources	(1,111.7)	(1,126.3)	(1,076.3)	(1,052.3)
Net loans requirement	**(483.4)**	**(493)**	**(441)**	**(432.1)**
Plus: Liquidity allowance	10	10	10	10
Liability benchmark	**(473.4)**	**(483)**	**(441)**	**(432.1)**
Existing borrowing	**200.1**	**172**	**162**	**153**



56. The County Council is a net investor and as the above table and graph shows, the County Council expects a negative liability benchmark across the forecast period (demonstrated by no visible liability benchmark line on the graph), meaning that 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.

Maturity structure of borrowing

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

Table 11 – Refinancing rate risk indicator	**30/06/23 Actual**	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	4%	50%	0%	✓
12 months and within 24 months	6%	50%	0%	✓
24 months and within 5 years	16%	50%	0%	✓
5 years and within 10 years	32%	75%	0%	✓
10 years and above	42%	100%	0%	✓

58. The County Council holds £4m 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. If not repaid before maturity, this loan has a duration to maturity of just over 11 years.

Principal sums invested for periods longer than a year

59. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 12 – Price risk indicator	**2023/24**	**2024/25**	**2025/26**
Actual principal invested beyond year end	279.3	272.1	272.1
Limit on principal invested beyond year end	£400m	£400m	£400m
Complied?	✓	✓	✓

Consultation, Equalities and Climate Change Impact Assessment

60. This report deals with the treasury management position for the first quarter of 2023/24, which is an in-year reporting matter and therefore no consultation or Equality Impact Assessments are required.

61. 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.

62. This report deals with the outturn position for the treasury management aspect of the County Council's business. 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.

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

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.

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:

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	27 September 2023
Title:	Internal Audit Plan 2023-24
Report From:	Deputy Chief Executive, and Director of Corporate Operations

Contact name: Neil Pitman

Tel: 07719 417233 **Email:** Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to provide the Audit Committee with an overview of the Internal Audit Plan 2023 – 2024 (Appendix 1).

Recommendation(s)

2. That the Audit Committee are invited to comment on and approve the Internal Audit Plan 2023-24 as attached.

Contextual information

3. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.

4. The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

   - The framework of internal control, risk management and governance is appropriate and operating effectively; and

   - Risks to the achievement of the County Council's objectives are identified, assessed and managed to a defined acceptable level.

5. The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

6. Internal audit focus should be proportionate and appropriately aligned, as such, only high and medium priority reviews are incorporated within the Internal Audit Plan.

7. All low priority review areas remain within the audit universe and are reassessed on an annual basis, however, will not be routinely incorporated in the planning process if continued to be assessed as a low priority.

8. The audit plan will remain fluid to ensure internal audits ability to react to the changing needs of the County Council.

9. Reviews, based on criteria other than risk, may also be built into the work plan. These may include ‘mandatory’ audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance.

Performance

10. Our ‘internal audit charter’ ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion.

11. Significant matters that jeopardise the delivery of the plan, or require changes to the plan are identified, addressed and reported to the Audit Committee.

12. The internal audit team have adopted a matrix style approach to enable the delivery of the plan, by using a resource pool of multi-disciplinary auditors capable of forming into teams as audit projects determine.

13. This approach will ensure seasonal peaks in demand can be effectively managed, an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise.

14. The Audit Plan 2023 – 24 has been developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council’s objectives.

15. The endorsement and sponsorship of the plan(s) at member / chief officer level will assist in providing the engagement and buy-in of staff at an operational level to ensure the outcome of audit reviews are optimised.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

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

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

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

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Southern Internal Audit Partnership

Assurance through excellence and innovation

HAMPSHIRE COUNTY COUNCIL
INTERNAL AUDIT PLAN 2023-24

Prepared by: **Neil Pitman, Head of Partnership**

August 2023

Contents

Introduction

The role of internal audit is that of an:

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

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

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

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of Internal Audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant Directors and Audit Sponsors, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of the Council.

Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Neil Pitman, Head of Southern Internal Audit Partnership, supported by Karen Shaw, Deputy Head of Partnership, Natalie Jerams, Deputy Head of Partnership, Iona Bond, Assistant Head of Partnership, Melanie Weston, Liz Foster, and James Short, Audit Managers.

Conformance with internal auditing standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

In considering all sources of evidence the external assessment team concluded:

> *'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.*
>
> *We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'*

Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team which are required to be disclosed under internal auditing standards.

Hampshire County Council – Serving Hampshire's Residents - Strategic Plan 2021 – 25

Hampshire County Council is the third largest shire council in the country, delivering the majority of Hampshire's public services, to almost 1.4 million residents (excluding people living in the Southampton and Portsmouth unitary council areas). HCC are responsible for around 80% of all spend on council services in Hampshire, amounting to £2.1 billion a year.

The Strategic Plan recognises that the next four years will be even more financially challenging – not least because of the direct impact of the COVID-19 pandemic on public finances. During this crisis period, significant additional costs were incurred, including the extra resources required for ensuring that the most vulnerable people in Hampshire were supported.

HCCs priority remains to keep Hampshire residents safe and do all they can to help their communities and the local economy to 'build back better'. The highlighted outcomes reflect these challenges and form the County Council's Strategic Plan.

The outcomes are underpinned by a range of 'priorities' to support delivery of the plan

Developing the internal audit plan 2023/24

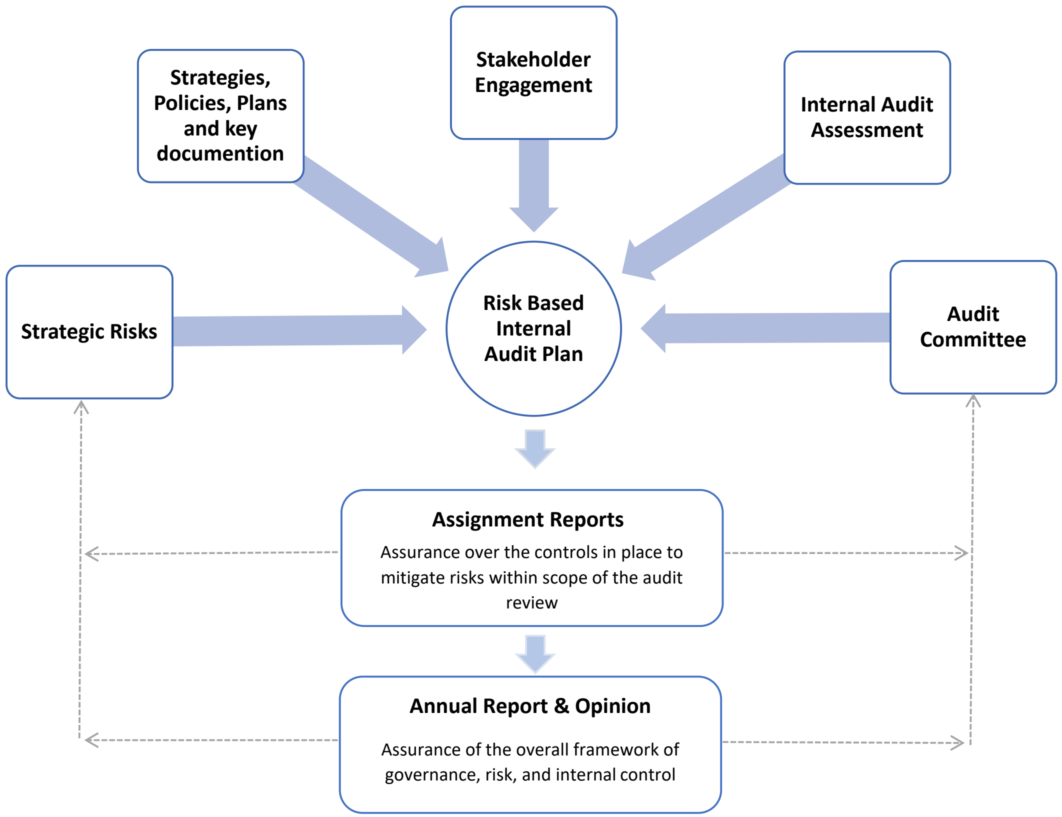
In accordance with the Public Sector Internal Audit Standards there is a requirement that Internal audit establish a risk-based audit plan to determine the resourcing of the internal audit service, consistent with the organisation's goals.

Based on conversations with key stakeholders, review of risk registers, key corporate documents and our understanding of the organisation, the Southern Internal Audit Partnership have developed an annual audit plan for the coming year.

Audit planning is a perpetual process throughout the course of the year to ensure we are able to react to new and emerging risks and the changing needs of the organisation.

The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised, and a suitable breadth of assurance is obtained.



Internal Audit Plan 2023-24

Audit	Directorate Sponsor	Scope/ Risk	Corporate/ Directorate Risk	Quarter
Governance				
Risk Management	DPO	To review the effectiveness of the corporate risk management strategy/policy and procedures and their application within departments. 23/24 to focus on corporate risk realignment following restructure.		Q2
Decision making – officer decisions	DPO	Thematic review to assess the processes and controls in place for documenting and publishing officer decisions across Directorates.	405	Q4
Meeting publications	DPO	To review the processes and controls in place to ensure that accurate and complete papers and minutes are provided for public meetings in a timely manner.	405	Q3
Consultations	DPO	To review the controls in place to ensure that public consultations are conducted as required and managed effectively.	405	Q1
Annual self-assessment PSIAS	DCO	In accordance with the requirements of the Public Sector Internal Audit Standards.		Q2
Annual Governance Statement	DPO	To review the framework to support to production of the annual governance statement.	405	Q1-2
Fraud (Proactive / Reactive)	DCO	Range of proactive and reactive initiatives to help identify and mitigate the risk of fraud. To include participation in the National Fraud Initiative.		Q1-4

Audit	Directorate Sponsor	Scope/ Risk	Corporate/ Directorate Risk	Quarter
Corporate				
Corporate resilience / Business continuity arrangements	DPO	Review development of the Corporate Resilience strategy and governance arrangements (advisory)	126, 133, 147, 271	Q1
Revenue Budget Monitoring	DCO	Assurance that new procedures have been rolled out and are working in practice to support effective budget monitoring – focus on Children's Services in 2023/24.	417	Q3
Debt Management – Follow up(s)	DCO	Follow up of previous audit reviews to ensure that debt is correctly identified, and that efficient and effective procedures are in place to pursue outstanding debt.	417	Q2
Insurance Arrangements	DPO	Review of new strategy, annual review process and claims processes for both insured and self-insured losses. Focus for 23/24 will be the annual review process with Directorates.		Q3
Payments – VIM Supplier Invoice Processing	DCO	Effectiveness of the end-to-end VIM processes and controls - (Advisory)		Q3-4
Death in Service	DCO	To review processes followed where death in service occurs (Advisory)		Q2
Transactional HR and Pay Team checking process	DCO	To provide advice and assurance regarding proposed changes based on risk and past error rates.		Q2
IT				
IBC system access	DCO	To review the controls in place that ensure access to system is in line with business need and promptly updated or removed for staff moves and leavers. (To be coordinated with the general SAP access audit)		Q4

Southern Internal Audit Partnership
Assurance through excellence and innovation

Audit	Directorate Sponsor	Scope/ Risk	Corporate/ Directorate Risk	Quarter
SAP Platform Management	DCO	Assurance over the management of the SAP platform.		Q1
IT Service Management Tool	DCO	Provide assurance that the aims of the new tool are being met, including the CMDB.		Q4
CapitaOne Application Review	DCO	Application management review, including assurance that responsibilities are clearly defined between IT and Children's Services and fulfilled on the IT side.		Q4
Security Information and Event Management (SIEM) Platform	DCO	Review to provide assurance that the new platform is delivering on the objectives of the procurement exercise.		Q4
IT Staff User Accounts and Permissions	DCO	Assurance over the controls in place to manage IT staff access in line with operational need and least privilege principles.		Q2
PCI DSS	DCO	Assessment of compliance against the PCI DSS.		Q1-2
Risk Based (General)				
Health and safety – fire safety management risk	DPO	Review of governance and controls in place to identify, report and manage fire safety risks (residential homes).		Q3
Children's Services establishments: Petty cash and procurement cards	DCS	Review a sample of establishments and disseminate key risks / actions to all establishments.		Q1
Agency Social Workers	DCS	To review the effectiveness of processes relating to the use of agency Social Workers in Children's social care.	313, 316	Q4
Unaccompanied Asylum-Seeking Children	DCS	To review the effectiveness of processes in place for unaccompanied asylum seeking children from assessment through to placement.	313, 316	Q2
Governor Services	DCS	Review of effectiveness and compliance with policies and processes in place.	304	Q2

Audit	Directorate Sponsor	Scope/ Risk	Corporate/ Directorate Risk	Quarter
Outdoors Service	DCS	Review of effectiveness and compliance with policies and processes in place.	304	Q3
SARs and Complaints	DCS	To review the processing and management of subject access requests and complaints within Children's Services.		Q4
Home to School Transport	DCS	Assurance over the processes in place for the provision of Home to School Transport.	304, 466	Q4
Procurement, Commissioning and Placements (PCP) & Placement Commissioning Team (PCT)	DCS	To review the implementation and effectiveness of changes following the recent external review.	313, 316	Q3
Mosaic Payment System	DCS	Time in the plan to provide coverage of the new recording system once in place.		Q4
Data Quality (CS Dept wide)	DCS	To provide assurance over processes in place to ensure the quality of data held prior to the transfer to the new Mosaic system.		Q2
Sustainability grants	DCS	To provide assurance over the use of the sustainability grants.		Q2
Family Time	DCS	To review the processes in place to ensure consistency and efficiency across family time activities, both in house and commissioned.		Q1
Children's Direct Payments	DCS	To review the policies and processes in place for the provision of Direct Payments.		Q3
Section 17 payments	DCS	To provide assurance over the processes in place for Section 17 payments (exceptional circumstances of financial assistance for goods and services).		Q3

Audit	Directorate Sponsor	Scope/ Risk	Corporate/ Directorate Risk	Quarter
School Thematic – Minibus follow up	DCS	Review a sample of schools and disseminate key risks / actions to all establishments.		Q2
School Thematic – Financial Management	DCS	Review a sample of schools and disseminate key risks / actions to all establishments.		Q3
School Thematic – TBC	DCS	Review a sample of schools and disseminate key risks / actions to all establishments.		Q4
Reactive Schools/Establishments	DCS	Time in the plan should a reactive audit be required.		Q1-4
Schools Financial Value Standards (SFVS)	DCS	To coordinate the receipt and analysis of SFVS returns from schools.		Q1-4
Commissioning for Younger Adults - Contract Management	DAHC	To review compliance with the arrangements in place for contract management in Younger Adults commissioning and links to provider quality and safeguarding.		Q3
End of Life Care	DAHC	To review the adequacy and consistency of processes in place across HCC Care for End-of-Life Care.	441	Q2
Care Director	DAHC	To review the controls in place surrounding the new IT system – Care Director – once in place.	118	Q3
Social Supervision	DAHC	To review the effectiveness of the processes in place for Social Supervision.		Q1
Learning and Development – Evaluation	DAHC	To review compliance with the new framework once embedded.		Q4
Deferred Payments	DAHC	To review the processes in place to ensure deferred payments are managed appropriately.		Q2

Audit	Directorate Sponsor	Scope/ Risk	Corporate/ Directorate Risk	Quarter
Care Provisions	DAHC	To review the processes in place to ensure that care provisions are correctly input to the system in a timely manner, enabling FAB assessments to occur and income to be recovered appropriately.	376	Q3
Care Assessments	DAHC	To review the processes in place to ensure timeliness and completeness of assessments including the triaging of cases.	376	Q4
Care Governance - Quality	DAHC	To be scoped further once Provider Failure audit 2022/23 completed.	376	Q4
Public Health Grant usage	DAHC	To confirm that the ring-fenced Public Health grant is spent in line with grant conditions.	442	Q1
Deprivation of Liberty Safeguards (DOLS)	DAHC	To review compliance with the DOLS process post COVID.	370	Q2
Complaints	DAHC	To review the processes in place to deal with complaints.		Q4
Older Adults – New Processes Contingency	DAHC	To review and provide assurance on any actions taken or new processes implemented following the structured service diagnostic carried out by Newton. Scope to be determined following the completion of the diagnostic.	375	Q4
AHC Establishment Thematic – Procurement card usage	DAHC	To review the processes in place relating to the usage and management of procurement cards by establishments.		Q2
AHC Establishment thematic – Fundraising accounts	DAHC	To review the processes in place regarding fundraising accounts held by establishments. *(this will not include amenities accounts).*		Q1
CQC Readiness	DAHC	To review the directorate's readiness against the CQC guidance and workbook.		Q4

Southern Internal Audit Partnership
Assurance through excellence and innovation

Audit	Directorate Sponsor	Scope/ Risk	Corporate/ Directorate Risk	Quarter
DMT Enquiry Process	DUS	To review the new process put in place to manage and monitor responses by DMT to external enquiries received.		Q2
Soft Facilities Management	DUS	To provide assurance over the process and reporting in place to ensure that the required compliance activities are undertaken as required by facilities management as part of responsible building manager activities.	454	Q2
Accident & Near Miss Reporting in Property	DUS	To ensure that accidents and near misses are recorded, managed and reviewed in line with corporate policy and legislation for Hampshire managed buildings.		Q4
Southern Construction Framework	DUS	To review the governance arrangements for the framework in place and the control mechanism that ensures accurate payments are made by the framework partners.		Q3
Hampshire Transport Management	DUS	To review management controls in place to ensure that all HCC fleet vehicles are maintained in line with manufacturers guidelines and legal requirements and that accurate vehicle records are maintained.		Q4
Project Change Control (Highways Capital Prog. Delivery)	DUS	To review the change control processes to ensure that all changes are documented, costed and agreed, including the impact on delivery timescales.		Q2
Utilisation of Volunteers	DUS	To review new processes in place across Countryside Services to ensure that volunteers are managed and records held in a consistent manner. Scope to include recruitment, training, management, performance management etc.	136	Q4
Hosted Partnerships	DUS	Review of the governance arrangements and agreements in place for a selection of HCC hosted partnerships (e.g.,		Q3

Audit	Directorate Sponsor	Scope/ Risk	Corporate/ Directorate Risk	Quarter
		Hampshire Biodiversity Forum / Project Integra / Solent Forum)		
Countryside Access Management System (CAMS)	DUS	Review the effectiveness of CAMS, following the previous advisory work in this area.		Q3
Procurement thematic review – Children's Services	DCO, DCS	To review procurement processes and compliance with Regulations and agreed policies.		Q4
Procurement - Southern Construction Framework 5 (SCF-5)	DCO	To review procurement processes and compliance with Regulations and agreed policies.		Q1
Procurements - Hampshire Deregistration Partnership Register (HDPR) 2023	DCO	To review procurement processes and compliance with Regulations and agreed policies.		Q3
Contingency	DH2050	TBC		Q3-4
Grants / Other –				
Reading & Hampshire Property Partnership	DUS	Certify a sample of transactions and reconciliations for HCC / RBC.		Q2
Supporting Families Claim	DCS	As per grant certification		Q1-4
M27 LEP (Fawley Bypass)	DUS	As per grant certification		Q1
M27 LEP (Stubbington)	DUS	As per grant certification		Q1
Local Transport Plan – integrated transport plan element	DUS	As per grant certification		Q2
Local Transport Plan – block maintenance element	DUS	As per grant certification		Q2
Local Transport Plan – incentive element	DUS	As per grant certification		Q2
Local Transport Plan – Pothole and Challenge Fund	DUS	As per grant certification		Q2
COVID-19 Bus Services Support Grant Restart?	DUS	As per grant certification		Q2

Audit	Directorate Sponsor	Scope/ Risk	Corporate/ Directorate Risk	Quarter
Local Bus Subsidy support grant (BSOG)	DUS	As per grant certification		Q2
Growth hub funding to local enterprise partnerships - core (LEPS)	DUS	As per grant certification		Q1
Additional growth hub funding to local enterprise partnerships - supplementary (LEPS)	DUS	As per grant certification		Q1
Biodiversity Grant	DUS	As per grant certification		Q4
Grant contingency	-	Ad hoc grants requiring certification during the year		Q2-4
Management	-	To include liaison, committee attendance, planning, monitoring, annual report, action tracking and advice		Q1-4

Directorate Sponsor				
DAHC	Director of Adults Health & Care		DPO	Director of People & Organisation
DCS	Director of Children's Services		DCO	Director of Corporate Operations
DUS	Director of Universal Services		DH2050	Director of Hampshire 2050

Shared Services Internal Audit Plan 2023-24

Services provided under the shared service arrangements with Hampshire Constabulary, the Office of the Hampshire Police and Crime Commissioner and Hampshire & Isle of Wight Fire and Rescue Service are reviewed via a joint internal audit plan that provides assurance to all parties to avoid duplication. All three organisations contribute audit days to this plan which is reported below for information.

The Integrated Business Centre attains assurance under International Standards on Assurance Engagements (ISAE) 3402 through Service Organisation Control (SOC) Type 1 and Type 2 reports. SIAP will not duplicate assurances attained through provision of ISAE 3402.

Audit	Scope	Proposed Timing
Procurement	To review procurement processes and compliance with Regulations and agreed policies. (£100k +).	Q4
Restructures	To review the controls in place to ensure that partner restructures are managed effectively by the IBC and that records are updated promptly and accurately.	Q4
PCI DSS	Assessment of the IBC aspects of the PCI DSS for 22/23.	Q2
Contingency	To review any areas identified that fall outside the scope of ISAE3402.	Q1-Q4
Management		Q1-Q4

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	27 September 2023
Title:	Internal Audit Charter 2023-24
Report From:	Deputy Chief Executive, and Director of Corporate Operations

Contact name: Neil Pitman

Tel: 07719 417233 **Email:** Neil.pitman@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the Audit Committee with the Internal Audit Charter 2023 – 2024 (Appendix 1) in accordance with the requirements of the Public Sector Internal Audit Standards.

Recommendation(s)

2. That the Audit Committee are invited to comment on and approve the Internal Audit Charter 2023-24 as attached.

Contextual information

3. The Accounts and Audit (England) Regulations 2015 state:

   'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking into account public sector internal auditing standards or guidance'

4. The Public Sector Internal Audit Standards (attribute standard 1000) requires that all internal audit activities maintain an 'internal audit charter'.

5. The charter is a formal document that defines the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

6. The internal audit charter establishes internal audits position within the organisation including:

- Recognising the mandatory nature of the Public Sector Internal Audit Standards
- Defining the scope of internal audit responsibilities.
- Establishing the responsibilities and objectives of internal audit.
- Establishing the organisational independence of internal audit.
- Establishing accountability and reporting lines (functional and administrative).
- Setting out the responsibilities of the board and the role of statutory officers with regard to internal audit.
- Arrangements that exist with regard anti-fraud and anti-corruption.
- Establishing internal audit rights of access.
- Defining the terms 'board' and 'senior management' for the purpose of internal audit; and
- Arrangements in place for avoiding conflicts of interest.

7. In accordance with the Standards the internal audit charter should be reviewed annually (minimum) and approved by senior management and the Audit Committee.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
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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.

Hampshire County Council

Internal Audit Charter 2023-24

Introduction

The Public Sector Internal Audit Standards provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The ‘Standards’ form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes the mission; core principles; definition of internal audit; and Code of Ethics.

The Standards require all internal audit activities to implement and retain an ‘Internal Audit Charter’.

The purpose of the Internal Audit Charter is to formally define the internal audit activity’s purpose, authority and responsibility.

Mission and Core Principles

The IPPF’s overarching ‘Mission’ for internal audit services is:

‘to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.’

The ‘Core Principles’ that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Demonstrate competence and due professional care;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement

Authority

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

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

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2017 [the Standards].

Purpose

The County Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the County Council that these arrangements are in place and operating effectively. The County Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

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

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

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Hampshire County Council lies with the Deputy Chief Executive and Director of Corporate Operations, as the authority's Chief Finance Officer (S151 Officer).

For the County Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the *'Mission', 'Core Principles', 'Definition of Internal Auditing'*, the *'Code of Ethics'* and *'the Standards'*.

Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the County Council this shall mean the Audit Committee (AC).

Senior Management – those responsible for the leadership and direction of the Council. At the County Council this shall mean the Corporate Management Team (CMT).

Position in the organisation

The Chief Internal Auditor reports functionally to the Audit Committee, and organisationally to the Deputy Chief Executive and Director of Corporate Operations, who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the County Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the County Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the County Council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. Audit Committee).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Deputy Chief Executive and Director of Corporate Operations, will provide the Chief Internal Auditor with the resources necessary to fulfil the County Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

'CMT' and *'Audit Committee'* will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to *'CMT'* and *'Audit Committee'*, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the County Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to *'CMT'* and *'Audit Committee'*.

If the Chief Internal Auditor, *'CMT'* or *'Audit Committee'* consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Deputy Chief Executive and Director of Corporate Operations, accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to *'CMT'* and *'Audit Committee'*;
- reports functionally to *'Audit Committee'*;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognise and address potential conflicts of interest.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'CMT'* and *'Audit Committee'*. The nature of the disclosure will depend upon the impairment.

Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity, but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the *'Mission', 'Core Principles', 'Definition of Internal Auditing'*, the '*Code of Ethics'* and the *'Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the County Council's laid down procedures.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the County Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The County Council both host and assume a strategic partner role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients. (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the SIAP. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor. Investigations carried out by internal audit will be managed by the Chief Internal Auditor who will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that County Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned. The decision on whether to invoke criminal proceedings will be made by the Chief Internal Auditor in liaison with the Monitoring Officer.

Internal audit will provide assurance over the County Council's Anti-Fraud Strategy and framework as part of the internal audit plan.

Internal audit also facilitates the County Council's participation in the National Fraud Initiative (NFI) in which data from the County Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potentially fraudulent activity.

Reporting

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform it governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

Corporate Management Team

As those responsible for the leadership and direction of the Council it is imperative that the CMT are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and Chief Internal Auditor to determine inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance

The Audit Committee

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to Audit Committee. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;
- agreement of the scope and form of external assessment as part of the quality management and improvement plan;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to *'CMT'* and *'Audit Committee'* for approval.

Annex 1

Southern Internal Audit Partnership – Client Portfolio

Strategic Partners:	Hampshire County Council
Key Stakeholder Partners:	West Sussex County Council Havant Borough Council East Hampshire District Council Winchester City Council New Forest District Council Mole Valley District Council Epsom & Ewell Borough Council Reigate & Banstead Borough Council Tandridge District Council Crawley Borough Council Arun District Council Guildford Borough Council Hart District Council
Blue light Key Stakeholder Partners:	Hampshire & IoW Fire & Rescue Authority West Sussex Fire Service Office of the Hampshire & IoW Police & Crime Commissioner / Hampshire & IoW Constabulary Office of the Sussex Police & Crime Commissioner / Sussex Police Force Office of the Surrey Police & Crime Commissioner / Surrey Police Force
External clients:	Waverley Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority Ringwood Town Council Lymington & Pennington Town Council Langstone Harbour Authority Chichester Harbour Authority Isle of Wight College

Annex 2

Assurance Services

- **Risk based audit**: in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

- **Developing systems audit**: in which:

  - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
  - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

- **Compliance audit**: in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.

- **Quality assurance review**: in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

- **Fraud and irregularity investigations**: Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the County Council's Anti Fraud and Anti Corruption Strategy.

- **Advisory / Consultancy services**: in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	2 March 2023
Title:	Minutes of the Hampshire Pension Fund Panel and Board (Public) – 24 March 2023
Report From:	Director of People and Organisation

Contact name: Caroline Roser

Tel: 01962 845751 **Email:** members.services@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 24 March 2023.

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:

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

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

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

2. Equalities Impact Assessment:

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

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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at the castle, Winchester on Friday, 24th March, 2023

Chairman:
* Councillor M. Kemp-Gee

Vice-Chairman:
* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* M. Cooper	* A. Crawford
* T. Davies	* J. Glen
D. Hiscock	* A. Joy
* R. Mocatta	

Employer Representatives (Co-opted members):
* Councillor J. Smyth (Portsmouth City Council)
* Councillor P. Taylor (District Councils - Rushmoor Borough Council)
* Ms F. Hnatow (University of Portsmouth)

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

Independent Adviser:
* C. Dobson

*present

Also present as an observer with the agreement of the Chairman: Mr P Reynolds

113. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Hiscock.

114. 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.

115. **CONFIRMATION OF MINUTES OF THE PREVIOUS MEETING (PUBLIC)**

The minutes of the Pension Fund Panel and Board held on 16 December 2022 were confirmed.

116. **DEPUTATIONS**

No deputations were received.

117. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Cllr Cooper and Fiona Hnatow their first meeting and thanked Cllr Dowden who had recently stepped down from the Panel and Board for his long service on the Pension Fund Panel and Board.

Cllr Kemp-Gee asked officers to bring back a report assessing whether the Pension Fund should become an associate member of the Association of European Regions.

The Chairman asked officers to recirculate the details of the Hymans Robertson training for any Members so that any outstanding modules could be completed. Cllr Kemp-Gee asked Members to provide any updates from recent training events they had attended and Cllr Glen said he had attended a Hymans Robertson seminar on the impact of the Budget for pensions.

118. **RESPONSIBLE INVESTMENT SUB-COMMITTEE MINUTES - 2 MARCH 2023**

The minutes of the Responsible Investment Sub-Committee meeting held on 2 March 2023 were received.

119. **ACCESS JOINT COMMITTEE MINUTES - 5 DECEMBER 2022 (PUBLIC)**

The minutes of the ACCESS Joint Committee (JC) meeting held on 5 December 2022 were received.

120. **GOVERNANCE: INTERNAL AUDIT PROGRESS UPDATE**

The Panel and Board received and noted a report of the Director of Corporate Operations (item 8 in the Minute Book) providing the Pension Fund Panel and Board with the progress update on the delivery of the 2022/23 Internal Audit plan for the Pension Fund. The fieldwork for all five audits was complete. Three draft reports have been issued concluding there was substantial assurance of the area in question.

121. **GOVERNANCE: INTERNAL AUDIT 2023/24 PLAN**

The Panel and Board received and noted a report of the Director of Corporate Operations (item 9 in the Minute Book) providing the Pension Fund Panel and Board with the Internal Audit Plan for 2023/24 for the Pension Fund. Members heard the aim of internal audit's work was to provide independent and objective assurance to management, that the frameworks of governance, risk management and management control were appropriate and operating effectively, and risks to the achievement of the Pension Fund's objectives were identified, assessed and managed. Four audits were planned for 2023/24.

122. **GOVERNANCE: ACCESS 2023/24 BUSINESS PLAN & BUDGET**

The Panel and Board considered the report from the Director of Corporate Operations (Item 10 in the Minute Book) including the ACCESS Business Plan for 2023/24, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2023/24 was £1.56m of which Hampshire's equal share would be £141,000.

RESOLVED:

That the ACCESS Business Plan for 2022/23 was approved.

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

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

124. **CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING (EXEMPT)**

The exempt minutes of the Pension Fund Panel and Board held on 16 December 2022 were confirmed.

125. **ACCESS JOINT COMMITTEE MINUTES - 5 DECEMBER 2022 (EXEMPT)**

The exempt minutes of the ACCESS Joint Committee (JC) meeting held on 5 December 2022 were received.

126. **INVESTMENTS: INVESTMENT STRATEGY REVIEW**

The Chairman called for items 16 and 17 to be heard before item 14 of the published agenda.

The Panel and Board received a report from the Director of Corporate Operations (Item 14 in the Minute Book) proposing changes to the Pension Fund's investment strategy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

127. **INVESTMENTS: CUSTODIAN UPDATE**

This item was deferred.

128. **INVESTMENTS: INVESTMENT UPDATE**

The Panel and Board received 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]

129. **INVESTMENTS: ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE**

The Panel and Board received a report from the Director of Corporate Operations (Item 17 in the Minute Book) updating the Panel and Board on the Fund's alternative investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

Chairman, 28 July 2023

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

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