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NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Thursday, 14th December, 2023 at 2.00 pm
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 27 SEPTEMBER 2023 (Pages 5 - 14)

To confirm the minutes of the previous meeting.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

6. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS (Pages 15 - 20)

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

7. EXTERNAL AUDIT: HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND REPORT 2021/22 (Pages 21 - 58)

To receive the external auditors report for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2022.

8. EXTERNAL AUDIT - HAMPSHIRE PENSION FUND INDICATIVE AUDIT RESULTS REPORT 2022/23 (Pages 59 - 104)

To receive the external auditors indicative results report for the Hampshire Pension Fund for the year ending 31 March 2023.

9. TREASURY MANAGEMENT REPORT MID-YEAR REPORT 2023/24 (Pages 105 - 122)

To receive a report of the Director of Corporate Operations providing an update on treasury management activity in the first half of 2023/24.

10. DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25 - 2026/27 (Pages 123 - 152)

To receive a report of the Director of Corporate Operations presenting the Treasury Management Strategy Statement for 2024/25 to 2026/27, which includes the Annual Investment Strategy for 2024/25.

11. CODE OF CORPORATE GOVERNANCE (Pages 153 - 172)

To consider a report from Director of People and Organisation outlining a review of the County Council's Code of Corporate Governance.

12. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 28 JULY 2023 (PUBLIC) (Pages 173 - 178)

To receive the public minutes of the Hampshire Pension Fund Panel and Board meeting held on 28 July 2023.

13. CORPORATE RISK MANAGEMENT REPORT (Pages 179 - 192)

To receive a report from the Chief Executive and the Director of People and Organisation updating the Committee on the County Council's Corporate risk management framework.

14. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during this item there would be disclosure to them of exempt information within Paragraphs 3 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.

15. CORPORATE RISK MANAGEMENT - EXEMPT APPENDIX (Pages 193 - 202)

To receive an exempt appendix to the Corporate Risk Management Report (Item 14)

16. INTERNAL AUDIT 2023/24 - LIMITED ASSURANCE REPORTS UPDATE

To receive a report from the Director of Corporate Operations and Deputy Chief Executive providing an update on progress with completing the agreed management actions for the one 'No Assurance' and the 16 'Limited Assurance' internal audit reviews which were reported to the Audit Committee in September 2023, as part of the Internal Audit Annual report and Opinion 2022/23.

17. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 28 JULY 2023 (EXEMPT) (Pages 203 - 208)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 28 July 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 Wednesday, 27th September, 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

114. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillor Mark Kemp-Gee.

115. **DECLARATIONS OF INTEREST**

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

Councillors Davies, Hiscock, House and Mellor declared a non-pecuniary interest as a Member, or Substitute Member, of the Hampshire Pension Fund Panel and Board.

Councillor House declared a non-pecuniary interest as a Board member of the Public Sector Audit Appointments (PSAA).

116. **MINUTES OF PREVIOUS MEETING HELD ON 25 MAY 2023**

The minutes of the meeting held on 25 May 2023 were agreed as a correct record and signed by the Chairman.

117. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Councillor Henderson to her first meeting of the Committee as a full Member.

The Chairman further noted a recent briefing held by the Department for Levelling Up, Housing & Communities (HLUHC) which was attended by a number of Members from the Committee, and had provided guidance regarding documentation which should be provided to authorities by external auditors as part of the audit process.

118. DEPUTATIONS

No deputations were received by the Committee on this occasion.

119. 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 quarter.

RESOLVED:

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

120. EXTERNAL AUDIT REPORT 2021/22 - HAMPSHIRE COUNTY COUNCIL

The Committee received 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.

It was heard that, in addition to the conclusion of outstanding items discussed at previous meetings, the position regarding historical information in the reported gross property, plant and equipment figures by incorrectly including academies had been corrected and resolved, as this had represented a material difference to the statement of accounts, although not the net asset position.

The Committee were advised that the audit was expected to be signed off by the end of the week of the meeting. The Chairman thanked the external auditors for their work, noting Hampshire County Council was one of only a few authorities who were in a position to complete their audit for 2021/22, following the national delays resulting from the changes to the valuation of infrastructure assets.

RESOLVED:

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

121. **EXTERNAL AUDIT - DRAFT AUDIT RESULTS 2021/22 - HAMPSHIRE PENSION FUND**

The Committee received a report from the external auditors, Ernst and Young, presenting the preliminary audit conclusion in relation to the audit of Hampshire Pension Fund for the year ending 31 March 2022.

The external auditor noted that the report presented was the final report, no longer a draft, with the valuation of individual items within the accounts satisfied.

RESOLVED:

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

122. **STATEMENT OF ACCOUNTS 2021/22**

The Committee received 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

Members heard that the report, which followed from the external audit results, presented the up to date Statement of Accounts, which had previously been brought before the Committee in September 2022 and December 2022.

RESOLVED:

- That the updated Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund be approved (Appendix 2).
- 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.
- 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.
- That the Audit Committee approves the decision not to amend the unadjusted differences set out in paragraph 26 on the basis of materiality.

123. **EXTERNAL AUDIT PLAN 2022/23 - HAMPSHIRE PENSION FUND**

The external auditors presented the Committee with the Audit planning report for the Hampshire Pension Fund for the year ending 31 March 2023.

Members heard that a new risk had been identified for the audit of all Pension Funds resulting from IAS 26. Members heard that the triannual valuation had been completed and the disclosure would be updated based on the valuation.

In response to Members questions it was heard that potential provisions for the McCloud judgment had been factored into the valuations to ensure audit plan was future proof.

RESOLVED:

That the Audit Committee receives and notes the provisional audit plan for the Hampshire Pension Fund for year ending 31 March 2023.

124. **INTERNAL AUDIT ANNUAL REPORT & OPINION 2022/23**

The Committee received a report of the Deputy Chief Executive and Director of Corporate Operations, providing 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.

Members heard that only one review had concluded with a no assurance opinion, with 16 resulting in a limited opinion, which represented 18% of the overall audit activity for the year. It was noted that a number of these outcomes had been reported to the Committee during the previous year. It was explained that, in an organisation the size and complexity of the County Council, it would be expected to see some limited assurance reviews, and demonstrated assurance that the internal audit process was adding value to the organisation. It was further noted that officers across the Council had genuinely engaged with the internal audit process, appreciating its importance in the effective governance of the County Council.

The Committee heard that update against the no and limited opinion reviews, including how management actions were being addressed, would be reported to the Audit Committee through the year ahead.

The Committee were advised that the report had been presented to the Corporate Management Team (CMT) , where the number of limited assurance opinions were noted. CMT had suggested further detail be presented to the Audit Committee to provide assurance around the management actions being taken on the limited and no assurance reviews, and it was heard that this would be brought before the next meeting of the Committee. In response to Members questions it was suggested that bringing forth this report at the next meeting would better enable the Committee to hold individual directors to account for delivery of the agreed management actions, which it was heard were sense checked by internal audit to ensure that the proposed actions would be robust enough to mitigate the issues identified.

The Chairman noted that care charging was an issue of significant concern and that it was expected that the appropriate select committee would review and maintain oversight in this area. Members raised concerns regarding potential lost income and Cllr House proposed that an additional recommendation be made that a report be brought back to the Committee to provide greater clarity.

A five minute adjournment was called at this point, to enable the wording for the recommendation to be finalised.

Councillor House, seconded by Councillor Hiscock, proposed an additional recommendation:

That the Audit Committee receives a separate report on Care Charges given no assurance could be given on process by internal audit including the total lost income to the County Council, the period for which due charges may not have been levied, and the actions taken by management to rectify the position.
A vote was held, with the inclusion of the additional recommendation agreed unanimously by the Committee.

RESOLVED:

That the Audit Committee receives and considers the Annual Internal Audit Report & Opinion 2022-23 as attached.

That the Audit Committee receives a separate report on Care Charges given no assurance could be given on process by internal audit including the total lost income to the County Council, the period for which due charges may not have been levied, and the actions taken by management to rectify the position.

125. **GOVERNANCE STATEMENT 2022/23**

The Committee considered a report of the Director of People and Organisation and Director of Corporate Operations presenting the Annual Governance Statement for 2022/23.

Members heard that the statement had been assessed against the same framework as used in the previous year, and that a refresh of the framework for the report in 2023/24, which would take into account the latest CIPFA guidance, would shortly be presented to the Committee.

RESOLVED:

- That the Audit Committee approve the 2022-23 Annual Governance Statement.

- 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.

126. **STATEMENT OF ACCOUNTS 2022/23**

The Committee received 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.

The Chairman thanked officers for providing a briefing to the Committee on the detail of the Statement of Accounts ahead of the meeting. The Chairman noted it would be helpful, if the proposed recommendations were agreed, for the Committee to see a note of any changes made under the delegated authority.

Members heard that it was anticipated that the audit process for 2022/23 would be completed in a more timely manner than the previous year's audit as a temporary resolution was in place for the issues relating to the valuation of infrastructure assets and the tri-annual valuation of the pension fund would not impact upon the 2022/23 audit.

It was further advised that proposals were being considered by the DLUHC to implement a back stop date for completion of 2022/23 local authority audits, to bring timeframes back in line with those in place before the impact of the national infrastructure valuation issues. It was anticipated that any audits not completed by the backstop date, would receive a qualified opinion, as a result of the auditors being unable to complete the audit. Whilst the position relating to the backstop date was being considered nationally, Ernst and Young had paused the 2022/23 audit planning for local authority audits, aside from Pension Fund audit plans. Officers were clear that, should this be the case for the audit of Hampshire County Council, the narrative would reflect that a qualified opinion would not have derived from any fault on behalf of the local authority, and therefore the County Council proposed to proceed with publishing the Statement of Accounts within the usual timeframes.

RESOLVED:

- That the Statement of Accounts for 2022/23 for Hampshire County Council and the Hampshire Pension Fund be approved (Appendix 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.

- 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.

- 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.

- 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.

127. **TREASURY MANAGEMENT OUTTURN REPORT 2022/23**

The Committee received 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.

Members heard that all activity across the year complied with the approved strategy, as well as meeting with any statutory guidance. The report highlighted that there had been no borrowing undertaken during the year, with no plans at the time of the meeting for future borrowing. Investment returns and risk exposure across the period of investment had remained favourable in comparison to benchmarking for other local authorities.

That the Audit Committee notes the report that has been presented to Cabinet.

128. **TREASURY MANAGEMENT REPORT Q1 2023/24**

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

Members heard that this new report would now be presented quarterly to the Audit Committee, in accordance with CIPFA's treasury management code.

The report highlighted no changes to the borrowing strategy, but noted £20m of PWLB loans had been repaid earlier in the year to take advantage of preferable repayment rates.

In response to Members questions regarding the lending of monies to other authorities it was heard that none of those authorities had, to date, issued a S114 notice, under the Local Government Finance Act 1988. It was further noted that, the investment strategy, including investment with other local authorities, continued to be supported by the advice of Arlingclose.

RESOLVED:

Audit Committee are asked to note the review of treasury management activities in Q1 2023/24.

129. **INTERNAL AUDIT PLAN 2023/24**

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

Members heard that the plan provided a mechanism to ensure resources were well used and focused. The plan was a live document, which enabled flexibility to respond to any new or emerging threats across the year.

The Chairman noted that the majority of reviews undertaken during the previous year received reasonable and substantial ratings and it was noted that the plan looked to address, and where possible eliminate, the key risks identified within the plan.

RESOLVED:

That the Audit Committee are invited to comment on and approve the Internal Audit Plan 2023-24 as attached.

130. INTERNAL AUDIT CHARTER 2023/24

The Committee received 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.

It was noted that the Audit Committee were required to review and approve the Internal Audit Charter on an annual basis. Members heard that there had been no significant changes since the previous report.

RESOLVED:

That the Audit Committee are invited to comment on and approve the Internal Audit Charter 2023-24 as attached.

131. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 24 MARCH 2023 (PUBLIC)

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 24 March 2023.

132. 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.

133. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 24 MARCH 2023 (EXEMPT)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 24 March 2023.

Chairman, 14 December 2023

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	14 December 2023
Title:	Information Compliance – Use of Regulated Investigatory Powers
Report From:	Patrick Blogg, Director, Universal Services

Contact name: Richard Strawson, Head of Trading Standards

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.

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

Communications Data			
Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	0	0	
2	1	50	Rogue Trading
3			
4			
Total -	**1**	**50**	

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:	14 December 2023
Title:	External Audit: Hampshire County Council and Hampshire Pension Fund report 2021/22
Report From:	Ernst and Young LLP (external auditors)

Contact name: Kevin Suter

Email: ksuter@uk.ey.com

Purpose of this Report

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

Recommendation

2. That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund 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 & Hampshire Pension Fund Auditor's Annual Report

Year ended 31 March 2022

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 July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Hampshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to 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 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.

Introduction

Purpose

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

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 6 May 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

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

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction (continued)

2012/22 Conclusions	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 29 September 2023.
Going concern	We have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	Financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have not yet been able to perform the procedures required by the National Audit Office on the Whole of Government Accounts submission.
Certificate	We have not yet issued our certificate for 2021/22 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission.

Audit of the financial statements

Key findings

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

On 29 September 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 27 September 2023 Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported 7 internal control recommendations in the Audit Results Report.

Significant risk	Conclusion
Risk of fraud in revenue and expenditure recognition	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. Our audit work has not identified any material issues or unusual transactions to indicate any misreporting of the County Council's financial position.
Misstatements due to 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. Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any instances of inappropriate judgements being applied. Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. Our work did not identify any journal entries without a valid business purpose.
Infrastructure assets	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 and as such assets could be materially overstated. This was a common issue in local authorities, and a Statutory Instrument was issued in December 2022 alongside an amendment to CIPFA's Code of Accounting Practice, for authorities in this position. We were satisfied the Council applied the Statutory Instrument and the Code update appropriately, the accounting policies and disclosure notes are complete and accurate and that depreciation is not materially misstated.

Audit of the financial statements (continued)

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

Other area of audit focus	Conclusion
Valuation of land and buildings Land and buildings is one of the most significant balances on the balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	We identified misstatements in the valuation of land and buildings which, when projected equate to £3m. This was not material and as such management did not adjust. We also identified misstatements in the valuation of investment properties which, when projected equated to £6.5m. This was not material and as such management did not adjust.
Pension liability valuation The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We completed our review of the accounting entries & disclosures and our review of the assumptions used by the actuaries. We were able to reconcile our roll forward with the figures provided by the actuary within 1% of the liability, which we judge to be acceptable. 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. The revised IAS 19 report showed that the net pension liability reduced by £239m. As this was material, management adjusted for this within their 2021/22 Accounts. We performed further procedures on the revised IAS 19 report and no issues were identified.
Private finance initiatives The Council has two PFI/service concession arrangements 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 did not identify any issues in our testing of the waste PFI. We identified there were differences in the street lighting PFI in relation to the contingent rental calculation with an impact of £4m to the CIES. This was not adjusted by management as it is not material.

Audit of the financial statements - Pension Fund

Key findings

On 29 September 2023, we issued an unqualified opinion on the financial statements of the Pension Fund. We reported our detailed findings to the 27 September 2023 Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported 7 internal control recommendations in the Audit Results Report.

Significant risk	Conclusion
Misstatements due to 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. We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. Our journal testing did not identify any journal entries without a valid business purpose. We did not identify any other transactions during our audit which appeared unusual or outside the normal course of business. We identified no unexplained differences between the fund's investment values provided by the custodian or fund managers, to those presented in the financial statements.
Valuation of complex investments (level 3 fair value hierarchy)	Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data. Significant judgements are made by the Investment Managers or administrators to value these investments and market volatility means such judgments can quickly become outdated. Our testing has not identified any issues with the judgements used in the valuation of level 3 investments.

Audit of the financial statements – pension fund (continued)

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

Other area of audit focus	Conclusion
Valuation of non-quoted pooled investments (level 2) The Pension Fund’s investment valuations are classified into three levels, according to the quality and reliability of information used to determine fair value. As at 31 March 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.	Our testing has not identified any issues with the judgements used in the valuation of level 2 investments.
Valuation of directly held property Directly held property are valued at level 2 in the fair value hierarchy, and subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the year-end valuation	Our testing has not identified any issues with the judgements used in the valuation of directly held property.

Value for Money

We identified 1 risk of significant weakness in the Council's VFM arrangements for 2021/22.

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

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

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the May 2022 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the CFO and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures in September 2023 and did not identify any significant weaknesses in the Council's VFM arrangements. We identified a significant risk related to Financial Sustainability as part of our risk assessment procedures. We set out our planned response in our Audit Plan. We reported this matter by exception in the audit report on the financial statements and provided further details in the Audit Results Report.

Our commentary for 2021/22 is set out over pages 10 to 14. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

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

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	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.	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Arrangements during the financial year

2021/22 has been an extraordinary year for the Council, with the Covid-19 pandemic providing a number of financial challenges initially during 2020/21 but also having a significant impact upon the review and development of the Medium-Term Financial Strategy (MTFS) for 2021/22 and beyond. In addition, there were additional cost pressures on the Council due to the significant increase in inflation which was 1.5% in April 2021 and 7% in March 2022.

The Council produces a three year MTFS on a rolling basis, which is updated annually. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. This strategy has served the Council well as it has delivered transformation programmes on time and on budget with minimum disruption.

A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer. The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme.

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

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 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". The July 2022 Medium Term Financial Strategy document suggested that by 2025/26 the Council could be facing a recurring deficit between £180m and £200m.

There are a number of pressures that the Council are facing in relation to their financial resilience and throughout their medium term financial planning, management have highlighted a number of risks including, rising costs in Adult Social Care, limited Government Funding and other general factors such as inflation. Due to the risk raised we performed additional work over the financial processes in place to manage these concerns. We held discussions with management to ascertain the extent of these risks and to understand the work being done to help combat these issues. Management highlighted the processes that were being undertaken to understand what could be done to close the budget gap, covering Internal measures, funding from Central Government and legislative changes.

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

HCC have implemented arrangements to identify whether they are able to close the budget gap through their own means. These processes have involved working with the Corporate Management Team (CMT) and Directors and asking them to look at each service area and consider differing options with increasing levels of impact and severity, as well as to come up with any cost cutting options. There is a monthly financial resilience meeting of the Directors of Social Services to monitor ongoing pressures.

Management, and Members, have also maintained an open dialogue with DLUHC as they work through their action plan. We note that the Council has taken early action in speaking to Government officials regarding the longer-term issues facing the Council.

Management have also highlighted that changes to legislation that reduce service cost or allow the Council to charge for services is also an option. Management have worked through some options for legislative changes which would significant amount of additional resource. However management note that no legislative changes have been made and therefore the Council are focusing on internal processes and lobbying the Government.

It is evident from our work performed that management has a detailed grasp of the financial challenge that it faces, and have put in place the necessary arrangements and processes in response. Therefore, in our judgement we assessed the Council's arrangements to be appropriate and without significant weakness within the financial year assessed.

Commentary on the latest financial position

Since our work was performed on the arrangements in place during the financial year, we have continued to monitor the Council's financial position. The financial update report to the July 2023 Cabinet meeting reported a net underspend for the year 2022/23 of £3.5m against the Directorate's cash limited budgets. There was a net £38m reduction in reserves for the year.

The report updated the Cabinet on the latest financial projections in the medium term period. Initially in the February 2023 budget papers, the expected gap to 2025/26 was £132m, and there was a commitment to review reserves to determine whether there were balances that could help support the budget bridging reserve. £89m was identified that could be re-purposed. However, this is offset by further cost pressures including, for example, to highways as a result of severe weather to a net position of £61.3m available to contribute to the 2024/25 budget with a small residual £2.4m gap to address. But this still left considerable pressure on the 2025/26 budget.

The Council have then reported to the October 2023 Cabinet meeting the Medium Term Financial Strategy Update and Savings Programme to 2025 Revenue Savings Proposals. Medium Term Financial Strategy Update and Savings Programme to 2025 Revenue Savings Proposal.pdf (hants.gov.uk)
The purpose of the report was to consider the overall financial strategy for dealing with the budget gap to 2025/26. The report also updated the current year (2023/24) position which shows significant pressures in School Transport which could lead to an additional pressure of around £18m by 2025/26, and identified there are also emerging concerns in Adults' Services and the SEN service that will need to be closely monitored to determine whether they will impact on the medium term forecast to 2025/26.

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Review processes have identified a total of £90.4m savings across all directorates, of which £75.1m are expected to be delivered by 2025/26, leaving an unmet budget gap of £56.9m for 2025/26. This is again currently assumed to have to come from reserves. As a change to previous policy, savings that are made earlier than planned will be used to support the budget bridging reserve rather than retained and reinvested by the relevant directorate.

Reserves, over the three year period 23/24 to 25/26, are expected to be used at an average level of £58.9m per year. This is not sustainable, which the Council recognises and reports.

The financial reporting of the Council's budget position and forecasts continues to show that the Council has appropriate arrangements in place to identify risks to its financial sustainability. However, the solution to use reserves is only a temporary mitigation to the budget problems over the medium term strategy period, and is not sustainable. The pressures it is experiencing will require strong political and officer management and discipline in implementing the savings it has identified and will also require further significant decisions regarding its services to be taken over the next budget cycles, to be able to maintain a balanced budget.

We are likely to continue to identify Financial Sustainability as a value for money risk in the next two audit periods.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Recommendation: The County Council should maintain the level of monitoring and review it currently has in place whilst the identified strains and pressures continue. Focus should be made on implementing savings plans as soon as possible, and continually reviewing further options.

Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

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

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

Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. The internal audit plan (approved by the Audit Committee 22 HCC Internal Audit Plan 21-22) incorporates both reactive and proactive fraud work along with fraud thematic reviews to identify and mitigate fraud risk.

Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee. Relevant trends are also reported to Audit Committee as would any incidents of fraud detected through internal audit checking procedures.

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

The Annual Budget process including the responsibilities and procedures in the annual budget process is set out within the Constitution of the Council within Part 3, Chapter 5 – Financial Regulations. The Financial Regulations state that the Chief Financial Officer is responsible for "preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme" with Chief Officers being responsible for "controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits".

Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed, this is documented within section 3.11 of the Financial Regulations.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.

Value for Money (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

The Council is currently operating under the "Serving Hampshire – Strategic Plan for 2021-2025".

The Plan has 4 strategic aims:

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

Each year the Council produces a performance report which details on the County Council's performance throughout the year, both financial and non-financial. This report provides strategic oversight of the Council's performance in year against the "Serving Hampshire" and sets out ways to refresh the Plan and update the Council Performance Management Framework.

To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis.

Within the Constitution of the Council in Part 3, Chapter 6 it sets out the Standing Orders on Procurement and Contracts. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	2021/22 has been an extraordinary year for the Council, with the Covid-19 pandemic providing a number of financial challenges during 2020/21 but also having a significant impact upon the review and development of the Medium-Term Financial Strategy (MTFS) for 2021/22 and beyond. In addition, there were additional cost pressures on the Council due to the significant increase in inflation which was 1.5% in April 2021 and 7% in March 2022. Regarding financial planning, the Council works to refine budgets and the Medium Term Financial Strategy (MTFS) to respond to cost pressures as they emerge, and recognises that effective financial planning remains difficult due to continuing uncertainties in the funding that will be made available to councils. The County Council reviews its budgetary position annually and produces a rolling three year plan, known as the Medium Term Financial Strategy (MTFS). This plan considers the financial climate at both the local and national level together with available resources and budgetary pressures in arriving at a financial strategy. <u>Medium Term Financial Strategy (MTFS):</u> The Council produces a three year MTFS on a rolling basis, which is updated annually. The strategy that the Council follows involves planning ahead of time, releasing resources in advance of need and using those resources to help fund transformational change. This strategy has served the Council well as it has delivered transformation programmes on time and on budget minimum disruption. The MTFS consists of a Reserves and Savings Strategy, which is summarised below: • Deliberate policy to make savings ahead of need to generate surplus funds (see Section 2 below where we discuss how this is done) • Using those reserves to fund the next phase of changes to release further savings and increase capital investment • Two year programme of savings to give the time and capacity to implement effectively • Straight line approach to allocating savings and corporate funding made available to fund spending pressures • Significant use of the Grant Equalisation Reserve to fund deficits in intervening years • Using other corporate reserves to fund voluntary redundancy programmes and corporate invest to save programmes In addition to the above, the Council focus on the Commercialisation of Local Government as part of their MTFS. A summary of this is shown below: • Charging users for the direct provision of services. • Investing money or using assets to generate a return. • Expanding traded services to other organisations. • Developing joint ventures that yield additional income or generate a return.

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (cont.)	Annual Budget Setting Process: A budget is prepared and approved annually, ahead of the financial year. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds. The budget will be approved by the County Council and proposed by the Cabinet on the advice of the Chief Financial Officer. The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme. These guidelines will take into account: • legal requirements • the medium-term planning prospects • the corporate strategy • available resources • spending pressures • Any other relevant plans The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it. We note that the Council has a good record of delivering against its financial strategies and budgets by containing expenditure within budgets and achieving early savings. The success of the strategies indicates that the Council are focused on identifying any potential risks and implementing a strategy to work against these risks in order for them not to be a financial burden in the future.
How the body plans to bridge its funding gaps and identifies achievable savings	The saving targets and other headline issues are agreed as part of the MTFS as noted above. The Council then implements their Savings strategies. These strategies have previously been through their "Transformation To" plans. These "Transformation To" plans have been replaced by "Saving Programmes" plans. It has been noted by management that, each successive savings programme is becoming more difficult to deliver as the potential to achieve further permanent cost reductions through early intervention and demand management and prevention approaches is reduced. In addition, the Council have implemented a "Working towards Economic Recovery" for which they have set out the current economic challenges and their response to it. The MTFS sets out clear savings strategies which the Council needs to implement to remain sustainable.

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Council's saving plans and initiatives focus around the four strategic aims, which bring together a number of their priorities forming an overarching framework for their services: • "Hampshire maintains strong and sustainable economic growth and prosperity – The first strategic aim relates to Hampshire's future economic growth and prosperity. • 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 need is greatest, and where they can make the biggest difference. • People in Hampshire enjoy a rich and diverse environment – The third strategic aim balances the first by ensuring that Hampshire's economic success does not come at the expense of the county's environment and heritage. • People in Hampshire enjoy strong, inclusive communities – The fourth 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." The Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable. Their focus is on targeting resources at the most vulnerable people while becoming more efficient in the delivery of its services. The Council have also implemented a strategic plan which is intended to guide decision making to ensure that money is targeted where it is needed most and where it can make the greatest difference. As noted above, The Council reviews its budgetary position annually and produces a rolling three year plan, known as the Medium Term Financial Strategy (MTFS). This enables the entity to consider the financial climate at both the local and national level together with available resources and budgetary pressures in order to arrive at a financial strategy. Throughout these processes, each service line is considered individually in order to ascertain whether savings can be made in each of these areas and the potential impact these savings may have. This enables the Council to ensure consistent delivery of services throughout the County and enables them to monitor progress and risks relating to each service area.
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	Throughout the financial planning i.e. annual budget and MTFS processes, consideration of other plans such as capital and treasury management also take place. The Capital and Investment strategy also forms part of the annual budget setting process with the strategy being taken to Cabinet for approval at the same time as the revenue budget. The Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. This strategy covers:

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system (cont.)	• Governance arrangements for capital investment. • Capital expenditure forecasts and financing. • Prudential indicators relating to financial sustainability. • MRP for the repayment of debt. • Treasury Management definition and governance arrangements. • Investments for service purposes, linked to the County Council's Commercial Strategy. • Knowledge and skills. • CFO's conclusion on the affordability and risk associated with the Capital and Investment Strategy. • Links to the statutory guidance and other information All of the Council's financial strategies and planning interlink and are presented in a way that informs clear and effective decision making.
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	Please see documentation above about the annual budget setting process, MTFS and saving initiatives. Throughout the preparation of each of these, risks are taken into consideration in order to see how they impact certain areas and what the financial implications of these risks might be. The Council has an effective corporate risk management framework in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. This includes both financial and non-financial risks. The elements of the Council's risk management's framework are outlined on their website. The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee. <u>Budget Monitoring and Control:</u> The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis. It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant Executive Member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems.

Governance

Reporting Sub-Criteria	Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council has an effective corporate risk management framework embedded in their Corporate Governance Code which is in place to identify, mitigate and monitor the risks to the Council in delivering strategic and service organisations. The Council manages risk through "robust internal control and strong public financial management". The elements of the Council's risk management's framework are outlined below:
	
	• Ensure that responsibilities for managing individual risks are clearly allocated
	• Align the risk management strategy and policies on internal control with
	• achieving objectives
	• Ensure an audit committee which is independent of the executive and accountable to the County Council:
	    • provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
	    • that its recommendations are listened to and acted upon
	
	The risk register is reviewed throughout the year by the Cabinet, Corporate Management Team, Risk Management Board and the Audit Committee.
	
	Quarterly reports are received from the internal auditors highlighting their work carried out including a breakdown of fraud investigations with any significant issues detailed in summary format. The internal audit plan incorporates both reactive and proactive fraud work along with fraud thematic reviews to identify and mitigate fraud risk.
	
	Cases of alleged or proven incidents of fraud are investigated or tracked by internal audit and reported to the Audit Committee. Relevant trends are also reported to Audit Committee as would any incidents of fraud detected through internal audit checking procedures.
	
	The Anti-Fraud and Corruption Strategy and related policies (including the Bribery Act Policy) are regularly reviewed and have been approved by the Audit Committee. The County Council fully participate in the National Fraud Initiative with results notified to the Audit Committee through the Chief Internal Auditors Annual Report and Opinion. In accordance with the Local Government Transparency Code 2014 all required fraud indicators are presented quarterly to the Audit Committee (as a public document) as part of the internal audit progress report.

How the body approaches and carries out its annual budget setting process	The Annual Budget process including the responsibilities and procedures in the annual budget process is set out within the Constitution of the Council within Part 3, Chapter 5 – Financial Regulations. The Financial Regulations state that the Chief Financial Officer is responsible for "preparing and controlling forward financial plans, budget strategies, the revenue budget, the capital strategy and capital programme" with Chief Officers being responsible

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Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body approaches and carries out its annual budget setting process (cont.)	for "controlling expenditure and income, monitoring performance and taking the necessary action to remain within budgets and cash limits". <u>Budget Preparation:</u> The Cabinet is responsible for issuing annual guidelines on the revenue budget and capital programme, in consultation with the Chief Financial Officer, ahead of the preparation of the revenue budget and capital programme. These guidelines will take into account: • legal requirements • the medium term planning prospects • the corporate strategy • available resources • spending pressures • the community plan and other relevant plans The Chief Financial Officer is responsible for ensuring that a revenue budget and capital programme is prepared on an annual basis and a forward financial forecast is prepared in line with Government Funding February 2021 notifications for consideration by the Cabinet, before submission to the County Council. The County Council may amend the budget and capital programme or ask the Cabinet to reconsider it before approving it. It is the responsibility of chief officers to ensure that revenue and capital budget estimates reflecting agreed service plans are prepared in consultation with the Chief Financial Officer and Executive Member and submitted to the Cabinet and that these estimates are prepared in line with the budget guidance issued by the Cabinet.
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	Within the Constitution of the Council there are processes and procedures in place to ensure the Council has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed, this is documented within section 3.11 of the Financial Regulations and is set out below. <u>Budget Monitoring and Control:</u> The Chief Financial Officer is responsible for providing appropriate financial systems to enable budgets to be monitored effectively. The Chief Financial Officer must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis. It is the responsibility of Chief Officers to control income and expenditure on their budgets and to monitor

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Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed (cont.)	performance taking account of financial information provided by the Chief Financial Officer. They should report to the relevant Executive Member on variations and take any action necessary to avoid exceeding their budgets and alert the Chief Financial Officer to any problems. Any new proposal containing significant financial implications must take note of the Chief Financial Officer's advice as well as that of the relevant Chief Officer and Executive Member.
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	The Council has a number of arrangements in place to ensure that appropriate decisions are made. Council decisions may be made either at meetings of all 78 Members i.e. 'Full Council', at committees of Council, at a meeting of all executive members i.e. 'Cabinet' or by individual executive members at 'decision days'. Decisions made by Cabinet or at decision days may be held to account by Select Committees (Overview and Scrutiny). Advisory panels and committees support and inform the decision making process. <u>County Council:</u> The Full Council is responsible for specified major decisions, such as setting the budget, and debates topical issues. It also receives reports from the Executive, and members are able to question the Executive on their areas of business. <u>Decision making:</u> Since 2001 Hampshire has operated a Leader with Cabinet structure. Hampshire's Cabinet is made up of the Leader and executive members who each have a portfolio of responsibilities. The Cabinet make decisions together on strategic issues and individual executive members can take decisions on issues relating directly to their portfolio areas. <u>Select Committees:</u> The Select Committees (Overview and Scrutiny) hold the executive members to account on the decisions they make both collectively as Cabinet and individually. They can assist the Cabinet and executive members to make effective decisions by examining issues beforehand and making recommendations – this is called 'pre-scrutiny'. The Select Committees can also challenge decisions before they are implemented, review decisions after they have been implemented to see if they achieved what was intended, and suggest new policy areas or review the effectiveness of existing policies. <u>Audit Committees:</u> The purpose of the audit committee is to monitor, review and report on the governance arrangements of the County Council.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee (cont.)	The committee meets quarterly and the regulatory framework that the Audit Committee follow is shown below: • To monitor the roles, processes and behaviour that affect the way that governance is exercised within the County Council and in particular the adoption, review and amendment of the Corporate Governance Framework for the County Council; • To review and consider the reports from the Chief Finance Officer on the treasury management function, including the treasury management strategy, half-yearly report and annual report; • To consider the effect of the County Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, seeking assurances as necessary that action is being taken on risk-related areas identified by auditors and inspectors; • To receive and form a view on internal assurances of governance practice and to be satisfied that the County Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it • To consider the County Council's compliance with its own and other published standards and controls; • To make recommendations to the County Council for the making or amending of financial regulations, standing orders related to contracts or regulations related to the conduct of the County Council's business. The Audit Committee is supported by the Internal Audit Function (Southern Internal Audit Partnership). Quarterly reports are received from the internal auditors highlighting work carried, these reports are presented at Audit Committee where the results and procedures are discussed amongst those charged with governance. Monitoring Officer: The Council also has a Monitoring Officer in place. The function and role of the Monitoring Officer is shown within Section 1, Chapter 13 of the Constitution. The functions of the Monitoring Officer include: • Maintaining the Constitution • Ensuring lawful and fair decision making • Proper Officer for Access to Information – i.e. will ensure that records of decisions, together with the reasons for those decisions and relevant officer reports and background papers, are made publicly available as soon as possible • Checking whether executive decisions are within the budget and policy framework • Supporting the Audit Committee – i.e. give guidance to the Audit Committee on matters appertaining to the governance of the County Council's affairs

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	To ensure effective leadership throughout the County Council, members and officers work together to deliver agreed plans with defined functions and roles. These roles and responsibilities are set out in the Constitution including those for the Executive, Committees, Full Council and Chief Officers and the rules under which they operate. In particular, it looks at how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. Many of these processes are required by statute and regulations by Governmental and other bodies (e.g. CIPFA) while the County Council has determined others locally. The Head of Governance (Monitoring Officer) provides advice on the interpretation and application of the Constitution. The Council has a sound management philosophy, demonstrates clarity of purpose and focus, with emphasis on performance and risk management. Our experience and knowledge of senior management is that they act with integrity, have good standards of behaviour and performance and lead by example. Both management and those charged with governance maintain an ethical stance and respond to instances of non-compliance with remedial action. There is an ethos of compliance with laws and regulations. The County Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers. These include codes of conduct for both officers and members and cover conflicts of interest and gifts and hospitality and appropriate policies for partnership working. These are communicated as part of the induction process. All staff and members are provided with a copy of the respective codes of conduct when joining the Council and are required to read and comply with them.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement How the body evaluates the services it provides to assess performance and identify areas for improvement	The Council is currently operating under the "Serving Hampshire – Strategic Plan for 2021-2025". The Plan has 4 strategic aims: • Hampshire maintains strong and sustainable economic growth and prosperity • People in Hampshire live safe, healthy and independent lives • People in Hampshire enjoy a rich and diverse environment • People in Hampshire enjoy being part of strong, inclusive communities Each year the Council produces a performance report which details on the County Council's performance throughout the year, both financial and non-financial. This report provides strategic oversight of the Council's performance in year against the "Serving Hampshire" and sets out ways to refresh the Plan and update the Council Performance Management Framework. To report progress against Serving Hampshire, departments are asked to rate performance against a core set of performance metrics on a quarterly basis. For each measure, a risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information. Departments also provide an overview of key achievements and detail any risks/issues and budget pressures that may impact performance against agreed priorities. Within this detail, departments are asked to provide a description of the mitigating actions that are in place where the risk rating exceeds the desired threshold and gives an opportunity to flag if wider support is required. The Insight and Engagement team is responsible for data collation to support the monitoring process, but any mitigating actions are undertaken by departments themselves.
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	The Council has a number of collaborative working arrangements which are all disclosed within Note 14 of their Statement of Accounts. It notes that The County Council has pooled budget arrangements with NHS bodies and joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, Westminster City Council, London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea. These involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity. <u>Integrated Business Centre</u> The Integrated Business Centre (IBC) is hosted by Hampshire County Council and was launched in 2014/15 for the provision of shared financial and HR services. The IBC has since extended it's services to Oxfordshire County Council, London Borough of Hammersmith and Fulham, City of Westminster Council and Royal Borough of Kensington and Chelsea.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve (cont.)	Performance is formally reviewed on a quarterly basis, and this includes a range of Performance Measures, overlaid by comprehensive service performance reports, and agreed actions to drive continued collective performance improvement. The IBC provides an ISAE 3402 Type 2 report in relation to the control environment. This allows HCC to monitor the control environment and follow up on any control weaknesses noted.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	Within the Constitution of the Council in Part 3, Chapter 6 it sets out the Standing Orders on Procurement and Contracts. This includes the procedures and statutory requirements in terms of the procurement of services. The Council has also developed a Procurement Strategy which sets the framework in which Hampshire County Council will work to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.

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Appendix B – Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: Related Parties 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 Statement of Accounts – this was corrected by management.	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.	We recognise the importance of correctly identifying related party relationships and will be developing a Microsoft Form that will provide additional guidance and detail and therefore a fuller declaration for the 2023/24 accounts to aid respondents and ensure all relevant detail is included. This is in addition to existing processes and checks that are in place and we believe this will ensure a proportionate process is in place.
Financial statements: Journal Posting 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.	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.	Our financial system is not configured to include authorisation of journal postings. CIES transactions are reviewed by exception as part of budget management processes. Processes are in place to review Balance Sheet GL codes. There are controls on journals posted as part of the year end accounts processes.
Financial Statements: Officers Remuneration 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.	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.	We are reviewing processes for collating the information required for this disclosure note and working closely with HR and Payroll colleagues to ensure full data sets are used for all relevant costs

Appendix B – Summary of all recommendations - continued

Issue	Recommendation	Management Response
Financial statements: Exit Packages 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"	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.	We are reviewing our processes for collecting the data and supporting evidence required for the exit packages note
Financial statements: Exit Packages 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.	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.	We have reviewed and redocumented our processes for completing this note which will ensure full and complete information on exits is included
Financial statements: Land & Buildings Existence 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.	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.	These changes related to historic academy transfers from the period prior to 2017/18. These historic amounts have been adjusted and the correct processes are already in place for current and future years.

Appendix B – Summary of all recommendations - continued

Issue	Recommendation	Management Response
Value for Money: Financial Sustainability The Council is relying on an average of £58.8m use of reserves over the period 2023-24 to 2025-26. This is not sustainable.	The County Council should maintain the level of monitoring and review it currently has in place whilst the identified strains and pressures continue. Focus should be made on implementing savings plans as soon as possible, and continually reviewing further options.	Agreed.

Appendix C – Fees – Hampshire County Council

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

In line with previous years, for 2021/22 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and additional work to address the increase in Regulatory standards.

As outlined in the Audit Results Report we were required to carry out additional audit procedures relating to the infrastructure assets change of scope; review of the triennial valuation; additional procedures required to gain sufficient assurance over fixtures and fittings; engaging a PFI expert; and the audit of prior period adjustments identified through the course of the audit. As a result, we have discussed an associated additional fee with the CFO which remains subject to approval by PSAA Ltd.

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Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee - HCC	89,720	89,720	89,720
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	49,074	49,074	12,944
Scale fee variation - new auditing standard and Value for Money requirements (Note 2)	13,103	13.103	13,103
Scale fee variations (Note 3)	21,963	910	3,245
IAS 19 protocol fees	1,017	1,017	1.017
Total Audit Fee	174,877	153,824	120,029
Non-audit work - ISAE 3402	56,500	56,500	56,500
Total fees	231,377	210,324	176,529

Note 1: In line with previous years, for 2021/22 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and additional work to address the increase in Regulatory standards.

Appendix C – Fees – Hampshire County Council

Fees

Note 2: Applying from the 2020/21 audit year, the NAO 2020 Code of Audit Practice included new requirements for our value for money responsibilities that are not included in the scale fee. Additional work was also necessary to address the impact of the updated auditing standard on estimates (ISA540). We have submitted the same fee variation request as the previous year for the impact of these changes in requirements, which are towards the bottom of PSAA's estimated ranges for their impact.

Note 3: We have requested variations specific to the 2021/22 audit for:

- £6,497 Additional procedures regarding Infrastructure Assets
- £910 Use of EY expert to determine the impact of errors from the streetlighting PFI findings.
- £3,116 Exit packages errors and prior period adjustment
- £3,370 Property, Plant & Equipment prior period adjustment (academy schools)
- £1,877 Additional work on iterations of Officer Remuneration disclosure
- £2,314 Extended procedures to identify and test the underlying evidence for furniture and fittings existence
- £1,818 Value for Money procedures to address the identified financial resilience risk.
- £2,061 use of EY internal experts for pensions testing, including triennial valuation impact review

We confirm we have undertaken non-audit work in respect of providing an ISAE 3402 report on the IBC, see page 33.

Appendix C – Fees – Hampshire Pension Fund

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

For 2021/22 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Pension Fund and additional work to address the increase in Regulatory standards.

As outlined in the Audit Results Report we were required to carry out additional audit procedures relating to engaging an expert to value the underlying company behind one of the pension fund's level 3 assets. We also needed to undertake additional procedures due to the impact of the triennial valuation of the IAS26 disclosures. As a result, we have discussed an associated additional fee with the CFO which remains subject to approval by PSAA Ltd.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee - HPF	24,442	24,442	24,442
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	39,699	39,699	9,982
Scale fee variation - new auditing standard	603	603	603
Scale fee variation – use of EY specialist	4,935	5,000	4,119
Scale fee variation – impact of triennial valuation	2,946	0	0
Total Audit Fee	72,625	69,744	39,146

We confirm we have not undertaken any non-audit work for the Pension Fund.

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 Council, and its members and senior management and its affiliates, including all services provided by us and our network to the 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 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 previous page includes a summary of the fees that you have paid to us in the year ended 31/03/22 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. We highlight in the table below the most significant services that may be reasonably considered to bear upon our integrity, objectivity and independence.

Description of service	Related independence threat	Safeguards adopted and reasons considered to be effective
Non-audit work in relation to the ISAE 3402 report on the integrated business centre (IBC)	Self-review	The work will be led and delivered by a separate SOC reporting team. No members of the audit team will work on this project.

As at the date of this report, future services have been contracted to provide the same non-audit services for the year ended 31 March 2023.

We confirm that we have undertaken non-audit work in relation to the ISAE 3402 report on the integrated business centre as noted above. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

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ED None

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	14 December 2023
Title:	External Audit: Hampshire Pension Fund indicative audit results report 2022/23
Report From:	Ernst and Young LLP (external auditors)

Contact name: James Stuttaford

Email: jstuttaford@uk.ey.com

Purpose of this Report

1. The purpose of this report is to present to the Audit Committee the indicative audit results report in relation to the audit of the Hampshire Pension Fund for the year ending 31 March 2023.

Recommendation

2. That the Audit Committee receives and notes the Hampshire Pension Fund indicative audit results report for year ending 31 March 2023.

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 Pension Fund
Indicative audit results report

Year ended 31 March 2023

14 December 2023 (Draft)

Building a better working world

Hampshire County Council
The Castle
Winchester
SO23 8UJ

14 December 2023

Dear Audit Committee Members

2022/23 Indicative Audit results report

We are pleased to attach our indicative audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. The audit results report can only be indicative at this stage due to the following:

1) Ongoing audit work outlined in "status of the audit"
2) Quality review of audit work
3) Awaiting DHLUC guidance on the audit of the Administering Authority's 22/23 accounts prior to concluding the Pension Fund audit

We will update the Committee at its meeting scheduled for 14th December 2023 on these matters and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2022/23 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, the exercise of professional judgement 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 Audit Committee meeting on 14th December 2023.

Yours faithfully

Ben Lazarus, 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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/psaa-statement-of-responsibilities-of-auditors-and-audited-bodies-upto-2022-23/). 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 from July 2021" 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 our engagement letter. 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.

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01 Executive Summary

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Executive Summary

Scope update

In our audit planning report presented at the 27 September 2023 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.

We have made no changes to our assessment of materiality subsequent to presenting our Audit Planning Report to you in September.

Status of the audit

Our audit work in respect of the Pension Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of circulating this report (6th December 2023).

- Assurance Letters – Management, Those Charged with Governance and Internal Audit to provide responses to our assurance letters
- Level 2 Investments - Directly Held Property – Management to provide additional evidence for 1 title. Audit team testing remaining to be completed on 5 of 16 sampled assets.
- Level 3 Investments - Private Equity – Audit team to completing testing on a sample of 30 Private Equity Funds
- Other finalisation procedures including internal quality assurance and final checks on key documents
- Update of our subsequent events procedures to the date of our opinion
- Receipt of a signed letter of representation

Although our work is substantially complete we are not yet able to issue our opinion on the Pension Fund financial statements. As a result of national backlogs in the delivery of local government audits we have not yet been able to complete the audit of the 2022/23 financial statements of Hampshire County Council as the administering authority for the Pension Fund. The Pension Fund accounts are consolidated into the audited accounts of Hampshire County Council. Given we have not yet audited the 2022/23 accounts of Hampshire County Council we are therefore unable to issue the audit opinion on the Pension Fund financial statements or certify that are consistent with the version ultimately consolidated into the 2022/23 accounts of Hampshire County Council. There is central work ongoing to help navigate this issue.

Audit differences

No uncorrected items greater than our triviality threshold to report at this stage. We consider this further in Section 04 of our report.

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Executive Summary (cont'd)

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 Pension Fund. 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 explained within the 'Areas of Audit Focus' section of this report and summarised below.

Fraud risk	Findings & Conclusions
Misstatements due to fraud or error	We carried out procedures to address fraud risks as set out in our Audit Plan, including testing journal entries and considering estimates for evidence of management bias. Using data analytics is central to our approach. We also performed a reconciliation between the fund manager reports and the custodian reports to address the risk of manipulation of asset valuations. Based on all work finalised to date, we have no matters to bring to your attention.

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Significant risk	Findings & Conclusions
Valuation of level 3 investments	We carried out procedures as set out in our Audit Plan to ensure that these investment valuations are supported and that estimation processes, including assumptions made, are materially accurate. Except for Investments in Private Equity, where testing remains ongoing, we have completed our work and have no significant matters to bring to your attention.

Inherent risk	Findings & Conclusions
Valuation of directly held property investments	We sample tested key inputs, and challenged key assumptions, used by the valuer in producing the property valuation. Testing remains ongoing in this area, with testing of 11 out of 16 property samples now completed and subject to final review. Management are due to provide additional evidence for 1 title.
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 and that estimation processes, including assumptions made, are materially accurate. We have completed our work in this area and have no other matters to bring to your attention.

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Executive Summary (cont'd)

Areas of audit focus (Continued)

Inherent risk	Findings & Conclusions
IAS 26 – Actuarial present value of promised retirement benefits.	We carried out procedures as set out in our Audit Plan to gain assurance over the IAS 26 actuarial statement and the associated disclosure of the actuarial present value of promised retirement benefits as a note to the accounts. We have completed our work in this area and have no other matters to bring to your attention.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control based on procedures undertaken to date that might result in a material misstatement in your financial statements. We set out our detailed findings in Section 06 of this report.

Independence

Please refer to Section 07 for our update on Independence. We have no issues we need to bring to your attention subject to completion of our audit procedures.

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02 Areas of Audit Focus

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Areas of Audit Focus

Risk of misstatements due to fraud or error

Fraud risk

What is the risk, and the key judgements and estimates?

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

As identified in ISA (UK) 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.

Our response to the key areas of challenge and professional judgement

We undertook our standard procedures to address fraud risk, which included:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management’s processes over fraud.
- Consideration of the effectiveness of management’s controls designed to address the risk of fraud.

We also performed mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

We focused on ensuring that the investment valuations provided through the custodian and fund managers were appropriately journaled into the financial statements, where we have identified the opportunity and incentive for override to occur. We also:

- Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers; and
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports.

What are our findings and conclusions?

We have not identified any material evidence of material management override. Specifically:

- Our review of trends in general ledger data, and detailed consideration of unusual or unexpected journal postings, did not identify any journal entries that suggested the manipulation of accounting records or override or controls by management.
- We were able to reconcile fund manager, custodian and valuer reports to investments valuations disclosed in the financial statements with no material differences.
- We were able to agree the detailed investment note using reports directly from the custodian, valuer or fund managers.
- We checked the reconciliation of holdings included in the Net Assets Statement back to the source reports.
- Our review of accounting estimates, including estimates with a higher level of inherent risk, identified no evidence of management bias.

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Areas of Audit Focus

Valuation of Level 3 Investments

Significant risk

What is the risk, and the key judgements and estimates?

We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations.

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.

The Fund's private equity, private debt and infrastructure investments are categorised as being at level 3 in the fair value hierarchy. This is due to the uncertainty associated with the valuation of such investments and the absence of a liquid market, meaning that the valuations are not based on observable inputs.

Our response to the key areas of challenge and professional judgement

We:

- Agreed the population of investment assets accounted for in the financial statements to individual underlying fund manager valuation reports to 31/3/2023.
- Agreed the net asset value (NAV) of the level 3 investments appearing in the Fund's financial statements to underpinning audited financial statements supporting the investments as at 31/3/2023 where financial statements supporting valuation at this date were available. Where audited financial statements supporting the investments were not available at the net asset statement date we agreed the NAV in fund manager reports at 31/12/2022 to audited financial statements at that date. Further assurance was obtained as set out below.
- Obtained controls assurance reports from fund managers. Where these were not to 31/3/2023 we obtained bridging confirmations to 31/3/2023. We evaluated the overall assurance given and any specific control failures. We specifically considered controls that relate to valuation for exceptions or issues that may caveat the assurance given.
- Evaluated the underpinning audited fund financial statements for each fund at either 31/12/2022 or 31/3/2023 to ensure they were unqualified, had no other potentially relevant reporting points and were issued by a reputable auditor. Where relevant, we agreed the NAV of investments to underpinning audited financial statements as at 31/12/2022 by applying the Fund's share-holder percentage to the value within the statements. Where audited financial statements were not available at 31/3/2023 we adjusted the 31/12/2022 (quarter 3) valuation for known cash flow movements in the final quarter of the year, assuming they occurred at the start of quarter 4. We then obtained quarter 3 to 4 indices relevant to the type of investment to create a high/low range of movements for quarter 4 and applied that to the valuation derived for each investment at 31/12/2022. We confirmed that the range established was not greater than our performance materiality.
- Compared the valuation in the financial statements to the range established above to gain assurance they were within range to a tolerance of performance materiality.

What are our findings and conclusions?

Subject to completion of testing of Private Equity Assets and final review, we are satisfied that the valuation of the Fund's level 3 investments is materially correct in the financial statements. From the work completed on Private Debt and Infrastructure Assets, there were no significant reporting points or areas of concern arising from the procedures undertaken to draw to your attention.

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Areas of Audit Focus

Valuation of directly held property investments

Inherent risk

What is the risk, and the key judgements and estimates?

We consider the valuation of property investments to be of a higher degree of inherent risk because of the level of estimation uncertainty. As the pension fund asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher inherent risk that directly held property may be under/overstated.

Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement.

Our response to the key areas of challenge and professional judgement

We:

- Agreed the population of investment assets accounted for in the population to the Fund's property valuer's year end valuation report.
- Reviewed the scope of the valuers work and their professional capabilities as a basis to rely on management's specialist and obtained the detailed valuation report directly from the valuer independently of Fund management.
- Confirmed the information from the valuer had been correctly accounted for in the financial statements.
- Undertook detailed procedures for a sample of 16 assets selected on a judgmental basis to gain assurance over the valuer's report, including assumptions and methodology used to determine the fair value of the property investments. This resulted in us testing a value of £297m, which is 60% of the total value of directly held property investments in the financial statements.
- Used relevant indices to perform a reasonableness over the valuation change of the remaining assets compared to the prior year. The difference between the actual carrying value of the remaining assets and our estimated valuation based on the application of indices was below our performance materiality.
- Considered whether our work in this area needed to be supported by our EY Real Estate valuation professionals, but ultimately concluded this was not necessary based on our assessment of risk.
- Agreed viewed deeds for any new property and a sample of existing property deeds.

What are our findings and conclusions?

Our work in this area remains ongoing, with testing of 11 out of 16 property samples now completed and subject to final review. Management are due to provide additional evidence for 1 title.

Areas of Audit Focus

Valuation of non-exchange traded pooled funds (Level 2 Fair Value hierarchy)

Inherent risk

What is the risk, and the key judgements and estimates?

Hampshire Pension Fund hold a significant balance of non-exchange traded pooled funds which are classified as Level 2.

Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

We consider the valuation of non-quoted pooled investments to be of a higher degree of inherent risk because of the extent of estimation uncertainty.

Our response to the key areas of challenge and professional judgement

We:

- 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 ensure there are 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.

What are our findings and conclusions?

Our work in this area is complete, we are satisfied that the valuation of the Fund's non-exchange traded pooled funds are materially correct in the financial statements. There were no significant reporting points or areas of concern arising from the procedures undertaken to draw to your attention.

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Areas of Audit Focus

IAS 26 – Actuarial present value of promised retirement benefits

Inherent risk

What is the risk, and the key judgements and estimates?

We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to it’s nature.

Our response to the key areas of challenge and professional judgement

We:

- Agreed the disclosure to the IAS 26 actuarial statement and reporting requirements.
- Engaged an auditor’s specialist to review the IAS 26 calculation approach and comment on the underlying assumptions.
- Reviewed the work of the management specialist (Aon, the actuary) and auditor’s specialist.
- Considered the controls used by Aon in undertaking the calculation.
- Performed IAS 19 liability roll-forward procedures for the largest scheduled body of the Fund, which give us assurance the assumptions have been correctly applied by the actuary. In 2022/23 we have been required to test membership data informing the 2022 triennial valuation of the Fund which will provide IAS19 assurance for scheduled body audits across a number of years.

What are our findings and conclusions?

We have completed our work in this area and subject to final review have no matters to bring to your attention. We note that our testing of membership data used to inform the 2022 triennial valuation of the Fund showed an improvement in the quality of supporting records compared to the results of our testing of membership data used to inform the 2019 triennial valuation of the Fund. There remains some work to further improve the quality of membership data held which is recognised by the Fund, but progress is being made based on the results of our testing.

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03 Draft Audit Report

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Draft Audit Report

Draft audit report

Our opinion on the financial statements

▸ As at the time of writing we intend to issue an unqualified opinion on the 2022/23 Pension Fund financial statements. This remains subject to change as we have not yet issued an opinion on the 2022/23 financial statements of the administering authority accounts of Hampshire County Council in which the Fund's accounts are consolidated. We therefore cannot fully conclude the Pension Fund audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE COUNTY COUNCIL ON THE PENSION FUND'S FINANCIAL STATEMENTS

Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2023 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Local Government Pension Scheme 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 2022/23.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023 and the amount and disposition at that date of the its assets and liabilities as at 31 March 2023; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

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 2022/23, other than the financial statements and our auditor's report thereon. Director of Corporate Operations is responsible for the other information contained within the Statement of Accounts 2022/23.

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.

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Draft Audit Report

Draft audit report

Our opinion on the financial statements

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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);
- 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 Responsibilities set out on page 42, 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 2022/23, and for being satisfied that they give a true and fair view. The Director of Corporate Operations is also responsible for such internal control as the Director of Corporate Operations 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 Director of Corporate Operations is responsible for assessing the 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 has 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 Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

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Draft Audit Report

Our opinion on the financial statements

- 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, inspecting correspondence with the Pensions Regulator and review of minutes.
- 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.
- 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:
    - Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences;
    - Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers;
    - Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
    - Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk.
- 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 including the use of specialists where appropriate, 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 Hampshire County Council and its members as a body, for our audit work, for this report, or for the opinions we have formed.

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04 Audit Differences

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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

We are required to highlight misstatements greater than our tolerable error of £67m which have been corrected by management that were identified during the course of our audit. There were no misstatements of this nature to draw to your attention, subject to completion of our final audit procedures.

Uncorrected misstatements

We are required to highlight uncorrected misstatements above our reporting threshold of £4.5 million. The Audit Committee should consider management’s reasons for not adjusting the financial statements. There are no misstatements of this nature to draw to your attention, subject to completion of our final audit procedures.

If uncorrected misstatements are identified post the date of this Audit Results Report, we will share these with the Audit Committee for their consideration. Any reasons for not adjusting uncorrected misstatements above our reporting threshold would require recording in the letter of management representation, to be signed by the Director of Corporate Operations and Chair of the Committee. Draft text for the letter of management representation is included at Appendix C.

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05 Other Reporting Issues

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Other Reporting Issues

Consistency of other information published with the financial statements

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Hampshire County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23. We are not yet able to do this as we have not completed the audit of Hampshire County Council's 2022/23 financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 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. We had no reason to exercise these duties subject to completion of our final audit procedures.

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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 had no matters to report subject to completion of our final audit procedures.

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Other Reporting Issues

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
    - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
    - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

We set out the findings and conclusions from our work to implement ISA 315 in the table below.

Audit Procedures	Audit findings and conclusions

We performed the following procedures:
 	
We obtained an understanding of the IT processes related to the IT applications of the Fund. The Fund has two relevant IT applications for the purposes of ISA 315 risk assessment.
• We performed procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.
• When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures.
• We reviewed the following processes for all five relevant IT applications:
  • Manage vendor supplied changes
  • Manage security settings
  • Manage user access
  • Manage entity-programmed changes
  • Job scheduling and managing IT process
	No significant issues were identified in our review of the various processes, including the design and implementation effectiveness of relevant controls around the financial statement close process. We have not tested the operation of any controls through this review.

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07 Assessment of Control Environment

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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.

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.

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08 Independence

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Relationships, services and related threats and safeguards

Relationships

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 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 table below sets out a summary of the fees that are due to us in relation to the year ended 31 March 2023 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.

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	Current Year 2022/23	Prior Year 2021/22
	Proposed fee £	£
Scale Fee – Code work	30,673	24,442
Scale Fee Variation – Rebasing - see Note 1	40,347	40,347
Scale Fee Variation – In Year – See Note 2	TBC	2,946
Scale fee variation – In year use of EY specialist - see Note 3	0	4,935
Total fees	TBC	72,670

Note 1 – In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our 2021/22 audit should increase by £39,699. PSAA will determine the final figure based on our submissions for 2021/22. We expect similar recurrent costs to our assessment in 2022/23 and subsequent years. However, PSAA has stated that this will need to be determined each year. We will charge additional fee for work to comply with the enhanced requirements of ISA (UK) 315 (Revised). We will report our final proposed scale fee variation on full completion of our work.

Note 2 – An in year scale fee variation will be submitted in relation to the work to comply with the enhanced requirements of ISA (UK) 315 (Revised). We will report our final proposed scale fee variation on full completion of our work.

Note 3 - Fees in 21/22 relate to our use of an EY specialist to conclude on the valuation of L3 investments in 2021/22. As per Note 1, the Scale fee variation has not yet been determined by PSAA. Based on our current findings in 22/23 we have not needed to re-engage with a specialist for L3 investments.

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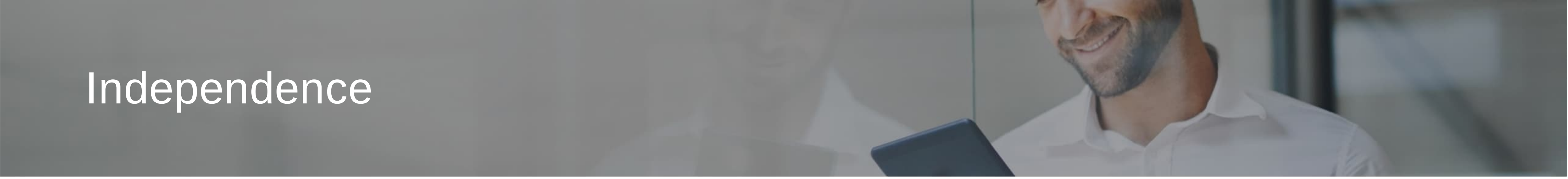

Independence

EY Transparency Report 2023

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 2023:

[EY UK 2023 Transparency Report | EY UK]

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10 Appendices

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Appendix A – Summary of communications

Summary of communications

Date	Nature	Summary
Throughout the year	Meetings, calls and emails.	The Partner and Manager have held meetings with the Assistant Director Pensions and the Head of Investments and Borrowings throughout the year. The audit team has met with the Pension Fund team in respect of the Fund's risks, accounts closedown and the audit approach regularly throughout the audit.
September 2023 – Audit Committee	2022/23 Audit Planning Report	The Partner and/or Manager have attended those meetings of the Hampshire County Council Audit Committee noted opposite through the financial year and to the date of issue of this report.
December 2023 - Audit Committee	2022/23 Audit Results Report	

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

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Appendix B - Required communications with the Audit Committee

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees 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.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
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, September 2023 meeting of the Audit Committee.
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, December 2023 meeting of the Audit Committee.

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Appendix B - Required communications with the Audit Committee (cont’d)

		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, December 2023 meeting of the Audit Committee.
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, December 2023 meeting of the Audit Committee.
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 • Matters, if any, to communicate regarding management’s process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud • Any other matters related to fraud, relevant to Audit Committee responsibility.	This Audit Results Report, December 2023 meeting of the Audit Committee.

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Appendix B - Required communications with the Audit Committee (cont’d)

Required communications	What is reported?	Our Reporting to you When and where
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, December 2023 meeting of the Audit Committee.
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 judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	This Audit Results Report, December 2023 meeting of the Audit Committee.
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, December 2023 meeting of the Audit Committee.

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Appendix B - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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, December 2023 meeting of the Audit Committee.
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	This Audit Results Report, December 2023 meeting of Audit Committee.
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, December 2023 meeting of the Audit Committee.
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, December 2023 meeting of the Audit Committee.
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, December 2023 meeting of the Audit Committee.

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Appendix C – Draft management representation letter

Draft management representation letter

The draft letter below sets out the management representations received at the time of writing and remains subject to potential change.

Management Rep Letter

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Ben Lazarus
Partner
Ernst & Young
1 More London Place
London
SE1 2AF

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 2023. 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 period from 1 April 2022 to 31 March 2023 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2023, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

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:

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 2022/23.

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

3. We acknowledge, as members of management of the Fund, 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 and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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.

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6. 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. We have not corrected these differences identified and brought to our attention by the auditor because [*specify reasons for not correcting misstatement*]

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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. We have drawn to your attention all correspondence and notes of meetings with regulators.

6. 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, its ability to continue, 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.
- 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.

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Appendix C – Draft management representation letter

Draft management representation letter

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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 throughout 2022/23 to the most recent meeting.

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 period 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 the management of the Fund.

7. 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.

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

9. 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 2022/23.

10. From the date of our last management representation letter at 27 September 2023 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.

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Appendix C – Draft management representation letter

Draft management representation letter

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Management Rep Letter

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

E. 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.

F. Subsequent Events

1. Other than as 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.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Hampshire Pension Fund Annual Report 1 April 2022 to 31 March 2023.

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

H. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no member of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

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

Pooling investments, including the use of collective investment vehicles and shared services

1. 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.

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Appendix C – Draft management representation letter

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K. Actuarial valuation

1. The latest report of the actuary Aon as at 31st March 2022 and dated 30th 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.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value:
a. The actuarial present value of promised retirement benefits (the Actuary).
b. The directly owned property investments of the Fund (the Property Valuer).

We 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. Estimates

Valuation of directly owned property investments

1. We confirm that the significant judgements made in making the property valuation estimate have taken into account all relevant information and the effects of the COVID-19 pandemic on the valuation of directly owned property investments 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 directly own property investments valuation estimate.

3. We confirm that the significant assumptions used in making the directly owned property investments valuation estimate appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuation of directly owned property investments, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

5. We confirm that appropriate specialized skills or expertise has been applied in making the directly owned property investments valuation estimate.

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.

Valuation of Fair Value Hierarchy Level 3 Investment Assets (Investments in Private Equity, Private Debt and Infrastructure) Estimates

1. We confirm that the significant judgments made in making the fair value hierarchy level 3 investment assets valuation estimates have taken into account all relevant information and the effects of the COVID-19 pandemic on the valuation of fair value hierarchy level 3 investment assets of which we are aware.

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Appendix C – Draft management representation letter

Draft management representation letter

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Management Rep 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 fair value hierarchy level 3 investment assets valuation estimates.

3. We confirm that the significant assumptions used in making the fair value hierarchy level 3 investment assets valuation estimates appropriately reflect our intent and ability to carry out the valuations 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 on the valuation of fair value hierarchy level 3 investment assets, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of fair value hierarchy level 3 investment asset estimate.

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.

Estimation of IAS26 present value of promised retirement benefits

1. We confirm that the significant judgments made in making the IAS26 estimate have taken into account all relevant information and the effects of the COVID-19 pandemic on the present value of promised retirement benefits 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 IAS26 estimate of the present value of promised retirement benefits.

3. We confirm that the significant assumptions used in making the IAS 26 estimate of the present value of promised retirement benefits appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuation of the present value of promised retirement benefits are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of the present value of promised retirement benefits.

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

N. 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 and reflected in the financial statements.

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Management Rep Letter

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, aligned with the statements we have made in the other information or other public communications made by us.

Yours faithfully,

____
Director of Corporate Operations

____
Chairman of the Audit Committee

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Ernst & Young LLP

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ED None

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	14 December 2023
Title:	2023/24 Mid-year Treasury Management Report
Report From:	Director of Corporate Operations

Contact name: Daniel O'Rourke

Email: Daniel.O'Rourke@hants.gov.uk

Purpose of the Report

1. The County Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve, as a minimum, four treasury management reports a year, including an annual strategy and outturn report.

2. This report provides an update on treasury management activity in the first half of 2023/24 and meets the requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators.

Recommendations

3. That the Audit Committee note the review of treasury management activities in the first half of 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 the first half of 2023/24, to include the effects of the decisions taken and the transactions executed in the first six 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. UK inflation has remained high over the period, keeping market expectations elevated of how much further the Bank of England (BoE) would hike rates. The Bank of England's (BoE) Monetary Policy Committee (MPC) continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August 2023, however, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed by the BoE deciding to keep Bank Rate on hold at 5.25% in both September and November 2023.

12. Economic growth in the UK remained relatively weak over the period. In calendar Quarter 2 2023, the economy expanded by 0.4%, beating market

expectations of a 0.2% increase. However, monthly Gross Domestic Product (GDP) data showed a 0.5% contraction in July 2023, which was the largest fall to date this calendar year and worse than the 0.2% decline predicted.

13. Although still high, inflation has fallen from its peak as annual headline CPI (Consumer Prices Index) declined to 6.7% in July 2023 from 6.8% in the previous month against market expectations for a rise. The largest downward contribution came from food prices.

14. Following the September MPC meeting, Arlingclose modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate.

Financial markets

15. Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak. Gilt yields fell towards the end of the period.

Credit review

16. In March 2023 Arlingclose 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, and the purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues. As a result, Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days for unsecured investments. This stance continued to be maintained during Quarter 2 of the financial year.

17. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and no changes were made to recommended bank durations over Quarter 2 of the financial year. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. Northern Trust Corporation was added to the counterparty list.

18. 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

19. 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	(249.4)	(222.0)
Internal Borrowing	**378.9**	**412.9**
Less: Balance sheet resources	(1,077.7)	(674.0)
Net Investments	**(698.8)**	**(261.1)**

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

20. 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	30/09/23 Balance £m	30/09/23 Rate %
Long-term borrowing	(192.0)	22.0	(170.0)	4.63
Short-term borrowing	(8.0)	(2.0)	(10.0)	5.18
Total borrowing	**(200.0)**	**20.0**	**(180.0)**	**4.66**
Long-term investments	238.5	2.0	240.5	5.15
Short-term investments	151.8	1.2	153.0	4.48
Cash and cash equivalents	349.7	(274.1)	75.6	5.23
Total investments	**740.0**	**(270.9)**	**469.1**	**4.94**
Net investments	**540.0**	**(250.9)**	**289.1**	

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.

21. The decrease in net investments of £250.9m shown in Table 2 reflects a decrease in investment balances of £270.9m, largely due to the prepayment of three years' worth of employer pension contributions on 1st April, in conjunction with early repayment of borrowing of £20.0m 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

22. 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.

23. 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.

24. 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.

25. The County Council is at present a net investor and whilst it expects a positive liability benchmark and need to borrow towards the end of the forecast period, there is not currently any immediate requirement to take on more external borrowing.

Borrowing Strategy

26. At 30 September 2023 the County Council held £180m of loans (a decrease of £20m 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**	**30/09/23 Balance £m**	**30/09/23 Weighted average rate %**	**30/09/23 Weighted average maturity (years)**
Public Works Loan Board	(188.0)	20.0	(168.0)	4.69	7.6
Banks (LOBO)	(4.0)	0.0	(4.0)	4.75	11.0
Other (fixed term)	(8.0)	0.0	(8.0)	3.92	16.2
Total borrowing	**(200.0)**	**20.0**	**(180.0)**	**4.66**	**8.1**

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.

27. 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.

28. 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. As previously highlighted in the Quarter 1 report, due to changes in the interest rate environment and in particular PWLB loan repayment rates, an opportunity arose in August 2023 to repay a portion of PWLB debt at favourable redemption rates. £20m of PWLB loans were therefore repaid early following consultation with Arlingclose.

29. 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.

30. 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

31. The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority'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.

32. 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 £454.5m 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	30/09/2023 Balance £m	30/09/23 Income return %	30/09/23 Weighted average maturity (years)
Short term investments					
Banks and Building Societies:					
- Unsecured	38.8	(31.4)	7.4	4.47	0.01
- Secured	10.0	(10.0)	0.0	N/A	N/A
Money Market Funds	306.0	(237.7)	68.3	5.32	0.01
Government:					
- UK Treasury Bills	58.7	(33.7)	25.0	4.63	0.06
- Local Authorities	78.0	40.0	118.0	4.58	0.42
Cash Plus funds	10.0	0.0	10.0	2.85	0.01
Total	**501.5**	**(272.8)**	**228.7**	**4.73**	**0.32**
Long term investments					
Banks and Building Societies:					
- Secured	27.2	(14.3)	12.9	4.58	1.87
- High quality	0.0	38.9	38.9	5.72	2.26
Government:					
- Supranational	0.0	45.0	45.0	4.82	3.31
- Local Authorities	23.3	0.3	23.6	5.47	9.44
Pooled Funds:					
- Pooled property*	75.0	0.0	75.0	3.84	N/A
- Pooled equity*	51.0	(21.0)	30.0	8.19	N/A
- Pooled multi-asset*	48.5	(48.5)	0.0	N/A	N/A
Total	**225.0**	**0.4**	**225.4**	**5.15**	**4.02**
Total investments	**726.5**	**(272.4)**	**454.1**	**4.94**	**1.47**
Thames Basin Heaths pooled fund investments	13.5	1.5	15.0		
Total	**741.5**	**(270.9)**	**469.1**		

* 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.

33. 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.

34. 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.

35. As demonstrated by the liability benchmark in this report, the Authority expects to be a net investor in the medium term, 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.

36. Over this financial year to date Bank Rate has increased by 1%, from 4.25% to 5.25% as at 30 September 2023. Short term investment interest rates have risen commensurately, with 3-month rates rising to around 5.25%, and 12 month rates to nearly 6%. The interest rates on Debt Management Account Deposit Facility (DMADF) deposits also rose, ranging between 4.8% and 5.4% and Money Market Rates between 5.0% and 5.3%.

37. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5.

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	4.05
30.09.2023	AA-	23	571	4.82
Similar LAs	AA-	46	2,080	4.49
All LAs	AA-	59	13	4.79

* Credit ratings are taken from the three main ratings agencies; Fitch, Moody's and S&P

38. The table shows that the County Council compares favourably to other Arlingclose clients when considering bail-in exposure across the portfolio. This can be attributed to the increased investment in longer-dated instruments such as bonds and lending to other local authorities that are exempt from bail-in. This investment in longer-dated instruments is also illustrated by the

increase in weighted average maturity. Return on investment has improved since March, predominantly as a result of exploiting increases in interest rates during this period, and this metric also compares favourably to other Arlingclose clients

Externally managed pooled funds

39. In previous years the County Council earmarked an amount of its cash balances for investments targeting higher yields; these were made from its most stable core balances with the intention that they would be held for at least the medium term, and it was targeted that these investments would achieve a return of at least 4%. This was a successful approach through the period of very low interest rates, as this portfolio achieved higher interest rates than what was being achieved by cash investments, which has contributed to the Council's funding for services..

40. Following the increases in UK Bank Rate there is no longer such a significant distinction between short-term cash rates, longer term rates and the returns from other asset classes. Therefore the County Council will no longer report against a 'higher yielding' section of investments and report on long term investments in total. Within the agreed strategy the Council will continue to utilise the stable core balances to maximise return with longer duration investments where appropriate.

41. As at 30 September 2023, £105m of the Authority's investments was invested in externally managed strategic pooled funds, which have generated an average total return of 25.07% since purchase. 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. In addition, £15m is invested on behalf of 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.

42. Having taken 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 divested £68.0m of its pooled fund holdings in Quarter 2, crystallising a net capital gain of £3.9m as was highlighted in the Quarter 1 report. 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. The investments on behalf of the TBH JSPB were not impacted by this decision, and the full £15m allocation remains.

43. 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.

44. Financial market conditions were volatile during the six-month period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets.

45. The UK, Euro area and US equity markets were initially helped by resilient growth data and diminishing talk of recession. A weaker currency and better-than-expected fundamentals were broadly supportive for UK equities.

46. During the period investor sentiment for UK commercial property was more settled than in Quarter 3 and Quarter 4 of 2022 when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be at an end. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property.

47. The combination of the above had a marginal negative effect on the combined value of the County Council's remaining pooled funds since March 2023. Based on market values at 30 September 2023, the County Council currently has a £9.8m unrealised loss on the £105m book value of its pooled fund holdings, summarised in Table 6.

Table 6: Higher yielding investments – market value performance	**Amount invested**	**Market value at 30/09/23**	**Gain / (fall) in capital value**	
			Since purchase	**2023/24**
	£m	**£m**	**£m**	**£m**
Pooled property funds	75.0	70.3	(4.7)	1.1
Pooled equity funds	30.0	24.9	(5.1)	(0.6)
Total	**105.0**	**95.2**	**(9.8)**	**0.5**

48. The County Council's investments in pooled funds target long-term price stability and regular revenue income. As shown in Table 7, the annualised income returns have averaged 4.18% pa (per annum) since purchase, contributing to a total return of 25.07%.

Table 7: Higher yielding investments – income and total returns since purchase	**Annualised income return**	**Total return**
	%	**%**
Pooled property funds	3.87	24.08
Pooled equity funds	4.77	39.85
Pooled multi-asset funds	4.12	11.28
Total	**4.18**	**25.07**

49. 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

50. 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).

51. 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.

52. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.

53. The County Council's existing non-treasury investments are valued annually, and their valuations as at 31st March 2023 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

54. 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.

55. Compliance with specific investment limits is demonstrated in Table 9 below.

Table 9 – Investment limits	30/09/23 Actual £m	2023/24 Authorised Limit	Complied
The UK Government	25.0	n/a	✓
Local authorities & other government entities	141.6	Unlimited	✓
Secured investments	12.9	Unlimited	✓
Banks (unsecured)	101.3	Unlimited	✓
Building societies (unsecured)	0.0	£90m	✓
Registered providers	0.0	£90m	✓
Money market funds	68.3	Unlimited	✓
Strategic pooled funds	105.0	£450m	✓
Real estate investment trusts	0.0	£90m	✓
Other investments	0.0	£90m	✓

56. Compliance with the authorised limit and operational boundary for external treasury management debt, is demonstrated in Table 10.

Table 10 – Debt limits	H1 2023/24 Maximum £m	30/09/23 Actual £m	2023/24 Operational Boundary £m £m	2023/24 Authorised Limit £m	Complied
Borrowing	251.0	231.2	745	780	✓
PFI and Finance Leases	121.4	121.4	135	140	✓
Total debt	**372.4**	**352.6**	**880**	**920**	✓

57. 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

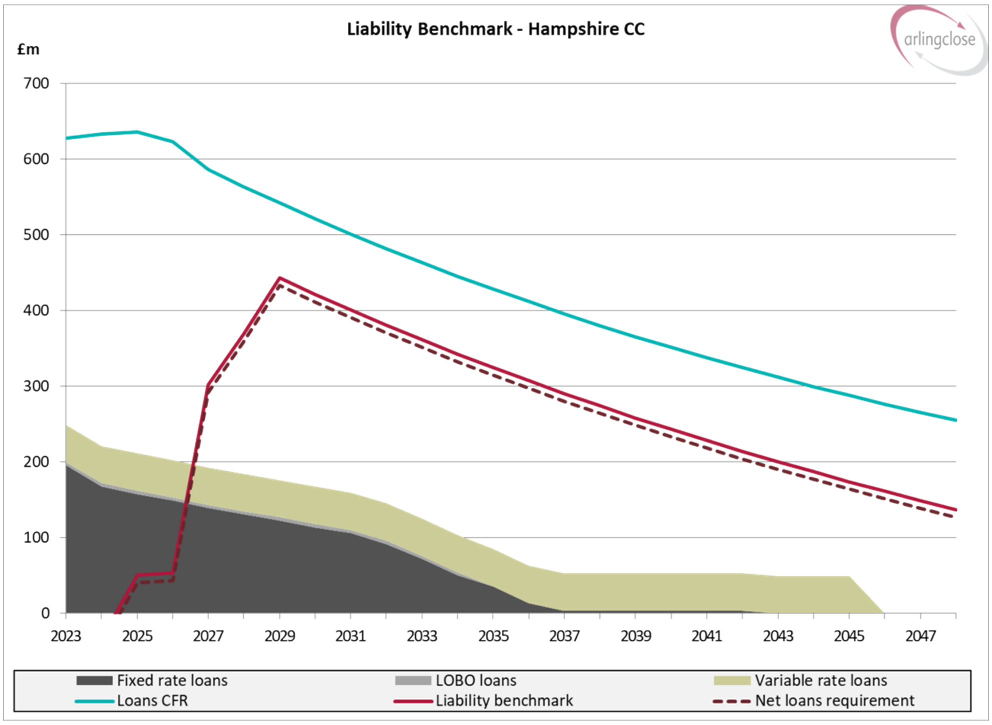
58. The County Council measures and manages its exposures to treasury management risks using the following indicators.

Liability benchmark

59. This 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.

Table 11: Liability benchmark	31/03/2023 Actual £m	31/03/2024 Forecast £m	31/03/2025 Forecast £m	31/03/2026 Forecast £m
Loans CFR	629.0	635.0	637.0	624.0
Less: Balance sheet resources	(1,078.0)	(674.0)	(598.0)	(582.0)
Net loans requirement	**(449.0)**	**(39.0)**	**39.0**	**42.0**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**(439.0)**	**(29.0)**	**49.0**	**52.0**
Existing borrowing	**172.0**	**162.0**	**153.0**	**143.0**

Graph 1: Liability Benchmark – Hampshire County Council



60. The County Council is at present a net investor and as the above table and graph shows, the County Council expects a negative liability benchmark until March 2025 (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. A positive liability benchmark is expected from March 2025 onwards, however the level of existing borrowing should be sufficient to meet the needs of the planned capital programme without the need to borrow more until March 2027. From March 2027 onwards, additional borrowing will need to be taken on, as illustrated by the liability benchmark line in red crossing above the solid sections at the bottom of the graph that indicate the current external borrowing held.

Maturity structure of borrowing

61. 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 12 – Refinancing rate risk indicator	30/09/23 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%	✓

62. 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.

Long term Treasury Management investments

63. 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 13 – Price risk indicator	2023/24	2024/25	2025/26
Actual principal invested beyond year end	£240.5m	£224.4m	£163.6m
Limit on principal invested beyond year end	£400m	£400m	£400m
Complied?	✓	✓	✓

Interest rate exposures

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

Table 14: Interest rate risk indicator	30/09/23 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates:		
Investments	£209.3m	+/- £2.1m
Borrowing	£4.0m	+/- £0.0m

Consultation, Equalities and Climate Change Impact Assessment

65. 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.

66. 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.

67. 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.

68. 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

Committee:	Audit Committee
Date:	14 December 2023
Title:	Draft Treasury Management Strategy Statement 2024/25 to 2026/27
Report From:	Director of Corporate Operations

Contact name: Gemma Farley

Tel: 0370 779 4704 **Email:** Gemma.Farley@hants.gov.uk

Purpose of the report

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

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

3. The purpose of this report is therefore to present the Treasury Management Strategy Statement for 2024/25 to 2026/27. This includes the Annual Investment Strategy for 2024/25.

Recommendations

4. That the Audit Committee notes the following recommendations that will be made to Cabinet:

- That the Treasury Management Strategy for 2024/25 (and the remainder of 2023/24) be approved.
- That authority is delegated to the Director of Corporate Operations to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

Introduction

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

6. The County Council's Capital and Investment Strategy sets out the Council's broad approach to investment, including its capital programme, how this is funded, and investments held for service purposes or for commercial profit.

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

8. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the County Council's prudent financial management.

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

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

External Context

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

Economic background

12. The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the County Council's treasury management strategy for 2024/25.

13. The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November 2023. The November 2023 quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

14. Office for National Statistics (ONS) figures showed CPI inflation was 4.6% in October 2023, a greater than expected fall from 6.7% the previous month. Core CPI inflation fell to 5.7% from 6.1%. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

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

Credit outlook

16. Credit Default Swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Quarter 2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

17. On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

18. Moody’s revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody’s also affirmed the Aa3 rating in recognition of the UK’s economic resilience and strong institutional framework.

19. Following its rating action on the UK sovereign, Moody’s revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same

update the long-term ratings of those five local authorities were downgraded.

20. There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

21. However, the institutions on the County Council's treasury adviser, Arlingclose's, counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2023)

22. Although UK inflation and wage growth remain elevated, the County Council's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's (BoE) Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Quarter 3 2024 to a low of around 3% by early-mid 2026.

23. Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

24. A more detailed economic and interest rate forecast provided by Arlingclose is in Annex A.

Balance Sheet Summary and Forecast

25. On 30 September 2023, the County Council held £180m of treasury borrowing and £469m of investments. This is set out in further detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance sheet summary and forecast

	31/03/23 Actual £m	31/03/24 Estimate £m	31/03/25 Forecast £m	31/03/26 Forecast £m	31/03/27 Forecast £m
Capital Financing Requirement	**750**	***748***	***757***	***732***	***685***
Less: Other debt liabilities*:					
- Leases**	0	*0*	*(15)*	*(13)*	*(12)*
- Street Lighting PFI	(83)	(79)	(75)	(70)	(65)
- Waste Management Contract	(38)	(34)	(30)	(25)	(20)
Loans CFR	**629**	***635***	***637***	***624***	***588***
Less: External borrowing***:					
- Public Works Loans Board	(188)	(160)	(150)	(141)	(131)
- Other Loans (incl. LOBOs)	(12)	(12)	(12)	(12)	(12)
- Other short-term borrowing	(50)	(50)	(50)	(50)	(50)
Total external borrowing	**(250)**	**(222)**	**(212)**	**(203)**	**(193)**
Internal borrowing	**379**	***413***	***425***	***421***	***395***
Less: Balance sheet resources:					
- Usable Reserves	(845)	*(701)*	*(576)*	*(527)*	*(314)*
- Allowance for Working Capital	(233)	*27*	*(22)*	*(55)*	*16*
Balance sheet resources	**(1,078)**	***(674)***	***(598)***	***(582)***	***(298)***
Treasury investments	**(699)**	***(261)***	***(173)***	***(161)***	***97***

Draft figures are shown as italicised within this table

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

** IFRS 16 requires the County Council to change how it recognises its leases from 1 April 2024.

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

26. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

27. It is forecast that the County Council will continue to take advantage of internal borrowing, which will increase through until 2024/25, whilst paying off Public Works Loan Board (PWLB) debt as maturities arise.

28. Reserves and balances are due to reduce significantly over the forecast period due to the anticipated funding of the Capital Programme and use of the Budget Bridging Reserve (BBR) to balance the budget pending further savings to be planned and delivered, whilst the Dedicated Schools Grant deficit unusable reserve is forecast to continue to grow, reaching over £370m by 2026/27. These factors are culminating in reducing treasury investment balances with a forecast requirement to borrow in 2026/27 if reserves and capital expenditure are fully delivered as planned, which would have further financial implications for the Council's revenue budget.

29. Since 2018 the County Council has (publicly and consistently) said that without fundamental changes to the way in which local government is funded, it will not be financially sustainable. The balance sheet forecast starkly presents the scale of the challenge facing the Council over the coming years in the absence of such a change.

30. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the County Council expects to comply with this recommendation during 2024/25.

Liability benchmark

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

32. 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. The liability benchmark itself 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.

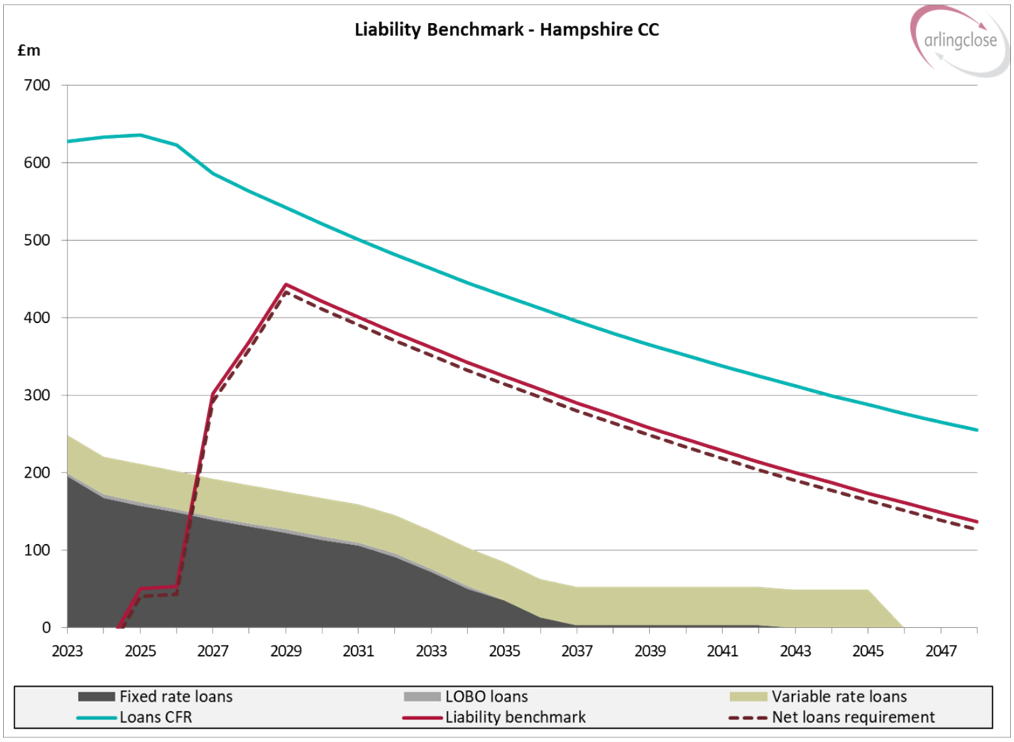
33. Due to the completeness of the information available on the capital programme at the time of writing, the figures in Table 2 are currently draft. These figures, as well as paragraphs 34-36 and Graph 1 will be updated over the coming weeks and will be reported to Cabinet in February 2024 and Audit Committee in March 2024 as part of a finalised Treasury Management Strategy report.

Table 2: Prudential Indicator: Liability benchmark

	31/03/23 Actual £m	31/03/24 Estimate £m	31/03/25 Forecast £m	31/03/26 Forecast £m	31/03/27 Forecast £m
Loans CFR	629	*635*	*637*	*624*	*588*
Less: Balance sheet resources	(1,078)	*(674)*	*(598)*	*(582)*	*(298)*
Net loans requirement	**(449)**	***(39)***	***39***	***42***	***290***
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**(439)**	***(29)***	***49***	***52***	***300***

34. At the start of the period, 31 March 2023, the County Council had a Loans CFR of £629m, external borrowing of £250m, balance sheet resources of £1,078m and a liability benchmark of -£439m. The difference of £379m between the CFR and external borrowing is internal borrowing which is where the County Council has used its own resources to fund its borrowing requirement.

Graph 1: Liability benchmark



35. The liability benchmark is the lowest level of debt the County Council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The liability benchmark graph is created based on five years of data, which explains why the Loans CFR line reduces past the initial five

year period – the diagram assumes that no new capital projects will begin after 2026/27, which is a very unlikely scenario.

36. The County Council expects a negative liability benchmark at the beginning of the forecast period (which cannot be seen on Graph 1) which then moves to a positive liability benchmark in 2025, reflecting the forecast balance sheet resources position mapped out in Tables 1 and 2. A positive liability benchmark that extends above the loans lines shows a need to take additional borrowing. Therefore Table 2 and Graph 1 illustrate that by 2027 the Council's existing borrowing is forecast to no longer be sufficient to meet the liability benchmark and the Council will need to source external borrowing if it is to meet the full delivery of its capital programme. The Council will keep the position under review and continue to take advice from Arlingclose on the most appropriate time to borrow when it is required.

Borrowing Strategy

37. The County Council held £180m of treasury management loans as at 30 September 2023, an decrease of £65m from 12 months previous, as part of its strategy for funding previous years' capital programmes, but also includes amounts held on behalf of others for governance or administration purposes. As interest rates have risen the opportunity was taken in June 2023 to repay £20m of PWLB loans (in addition to the early repayment of £12m of PWLB debt and £29m of other loans (including some Lenders Option Borrowers Option (LOBO) loans) in 2022/23). This has locked-in a future rate of return for the Council on the use of resources used to repay debt and reduced overall treasury risk by reducing overall cash balances.

38. The balance sheet forecast in Table 1 shows that the County Council has a high level of internal borrowing in comparison to its CFR but currently does not expect to need to take on new external borrowing in 2024/25 but Tables 1 and 2 of this strategy indicate that the Council may need to borrow in future years. The County Council has the option to borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £800m. The Director of Corporate Operations will explore all options to ensure the financial stability of the County Council in future years.

Objectives

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

Strategy

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

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

42. The County Council has previously raised the majority of its long-term borrowing from the PWLB. The County Council does not expect to take on any new long-term borrowing in 2024/25 due to the forecast level of reserves, however should the County Council need to borrow any long-term amounts it will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield, however the County Council's investment strategy does not support this activity and so will retain its access to PWLB loans.

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

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

Sources of borrowing

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd

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

Other sources of debt finance

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

- leasing
- hire purchase
- Private Finance Initiative (PFI)
- sale and leaseback
- similar asset based finance

LOBOs

47. The County Council holds £4.0m of LOBO 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.

48. This loan has options during 2024/25, and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the County Council will take the option to repay LOBO loans to reduce refinancing risk in later years. Total borrowing via LOBO loans will be limited to the current level of £4m.

Short-term and variable rate loans

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

Debt rescheduling

50. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The County Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

51. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the County Council’s treasury investment balance has ranged between £454m and £746m.

52. Over the last 12 months the investment balance has fallen by £277m which is largely due to the combination of the County Council’s decision to pay employer’s LGPS pension contributions in advance on 1 April 2023 for the three-year period to March 2026 at a cost of just over £264m, and the early repayment of £61m of external borrowing between October 2022 and June 2023. These decisions have been made to take advantage of savings, whilst also reducing the level of external borrowing.

Objectives

53. The CIPFA Code requires the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The County Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

54. The County Council aims to continue to hold a diversified investment portfolio, including investments in more secure and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

55. The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the County Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

56. At 30 September 2023 approximately 77% of the County Council's internal investment balances were invested so that they were not subject to bail-in risk (that investors funds are taken to sure a failing bank), as they were invested in Government investments and secured bank bonds.

57. Of the 23% of investment balances that were subject to bail-in risk at 30 September 2023, 90% was held in overnight money market funds which are subject to a reduced risk of bail-in due to the high level of diversification within these investments, and the remainder was held in overnight bank call accounts for liquidity purposes.

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

Business models

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

Environmental, social and governance factors

60. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Investments targeting higher returns

61. In previous years the County Council earmarked an amount of its cash balances for investments targeting higher yields; these were made from its most stable core balances with the intention that they would be held for at least the medium term, and it was targeted that these investments would achieve a return of at least 4%. This was a successful approach through the period of very low interest rates, as this portfolio achieved higher interest rates than what was being achieved by cash investments and significantly increased the annualised average income return for the total investment portfolio.

62. Following the increases in UK Bank Rate the decision was made to subsume the investments targeting higher returns within the long term investment portfolio as there was no longer a significant difference between the interest rates being achieved by those investments and cash, as short-term interest rates are now comparable with longer term interest rates.

63. The County Council will however continue to make use of long term balances, making investments in longer term investments including local authorities, other asset classes and regions, fixed capital value and pooled funds to mitigate the risk of low interest rates which will affect cash investments when UK Bank Rate is reduced. This diversification also helps to mitigate the risk of overexposure to a single event affecting a specific asset class.

64. The County Council continues to invest in pooled funds (although this allocation has reduced over the last 12 months) which enables the County Council to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

65. Diversification in itself does not guarantee positive outcomes. The selection of pooled funds is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the County Council’s income returns aims without putting its initial investment at undue risk over the longer term. The County Council is therefore currently invested in pooled funds that specialise in providing income returns to support the revenue budget. As a result of their income focus these funds may not achieve the same capital growth and therefore total return, as other more general investment funds, however they are likely to deliver good income returns for the longer term.

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

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

68. At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since the County Council would avoid selling investments that realised a capital loss. In addition to the risk of realising a capital loss, changes to IFRS 9 mean that capital gains and losses on investments need to be reflected in the revenue account on an annual basis, although there is currently a statutory override in place for local authorities that exempts them from complying with this requirement.

69. The County Council is aware of the risks involved with investing in pooled funds that hold underlying investments in equities and property. 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 £10.15m.

Investment Limits

70. The maximum that will be lent to any one organisation (other than the UK Government) will be £80m, which although is a reduction in comparison to the previous TMSS, this is a return to more normal limits. The limits had been temporarily increased in the 2023/24 TMSS due to increased investment balances.

71. Table 1 indicates that treasury balances are forecast to reduce over the longer term, however this investment strategy needs to contain investment limits that allow flexibility to manage higher mid-year investment balances as well as to ensure that all of the County Council’s cash can be invested in accordance with this TMSS in the eventuality that the capital programme doesn’t proceed as planned, and increased investment balances become available.

72. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 3.

Table 3: Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£80m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£200m per manager

Approved Counterparties

73. The County Council may invest its surplus funds with any of the counterparty types in Table 4, subject to the limits shown:

Table 4: Sector and counterparty limits

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£80m	Unlimited
Secured investments *	25 years	£80m	Unlimited
Banks (unsecured) *	13 months	£40m	Unlimited
Building societies (unsecured) *	13 months	£40m	£80m
Registered providers (unsecured) *	5 years	£40m	£80m
Money market funds *	n/a	£80m	Unlimited
Strategic pooled funds	n/a	£80m	£400m
Real estate investment trusts	n/a	£40m	£80m
Other investments *	5 years	£40m	£80m

This table must be read in conjunction with the notes below

*** Minimum credit rating**

74. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-/A3. Where available, the credit rating relevant to the specific

investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

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

Government

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

Secured investments

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

Banks and building societies (unsecured)

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

Registered providers (unsecured)

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

Money market funds

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

Strategic pooled funds

81. Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the County Council's investment objectives will be monitored regularly.

Real estate investment trusts (REITs)

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

Other investments

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

84. The Council's Strategy had previously allowed for investment in unrated corporate entities where the Council owned an interest in the company and had participation in its governance. Having received further advice these investments will now be classified as 'Investments for Service Purposes', following the approval of this policy, and are reported on in the Capital and Investment Strategy.

Operational bank accounts

85. The County Council may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB-/Baa3 and with total assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The County Council's operational bank account is with National Westminster – NatWest (currently with a lowest long-term credit rating of A+) and aims to keep the overnight balances held in current accounts positive, and as close to zero as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion (such as NatWest) are more likely to be bailed-in than made insolvent, increasing the chance of the County Council maintaining operational continuity.

Risk assessment and credit ratings

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

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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

Other Information on the security of investments

88. The County Council understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the County Council's treasury management adviser. No investments will be made with an organisation if

there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

89. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the County Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the County Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Reputational aspects

90. The County Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

Liquidity management

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

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

Treasury Management Prudential Indicators

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

Interest rate exposures

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

Table 5: Interest rate risk indicator

	30/09/2023 Actual	**Impact of +/- 1% interest rate change**
	£m	**£m**
Sums subject to variable interest rates:		
Investment	209.3	+/- £2.1m
Borrowing	4.0	+/- £0.0m

Maturity structure of borrowing

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

Table 6: Refinancing rate risk indicator

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

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

Long-term treasury management investments

97. 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 prudential limits on the long-term treasury management investments will be:

Table 7: Price risk indicator

	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£400m	£350m	£300m

98. Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

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

Financial derivatives

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

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

102. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit

risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit.

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

External Funds

104. The County Council manages cash on behalf of Thames Basin Heaths as the County Council is the Administrative Body which effectively means acting as the banker. As part of this role the County Council invests the monies held in accordance with instructions from Thames Basin Heaths. Investment decisions are made by the Thames Basin Heath Joint Strategic Partnership Board (JSPB) and they are advised by the County Council's Treasury Management Advisers, Arlingclose. The JSPB assumes all risks associated with these investments. All interest earned on those cash balances is allocated to Thames Basin Heaths using the County Council's accounting software system.

Investment training

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

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

107. CIPFA's Code of Practice requires that the County Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Investment advisers

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

Markets in Financial Instruments Directive

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

Other Options Considered

110. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Corporate Operations believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 8.

Table 8: Alternative strategies and their implications

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

Table 8: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
		interest costs may be less certain

Consultation, Equalities and Climate Change Impact Assessment

111. 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.

112. This report deals with the treasury management strategy for 2023/24. 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.

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

Annex A – Arlingclose Economic & Interest Rate Forecast - November 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.

- The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.

- The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.

- Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.

- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.

- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.

- Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

- There is a heightened risk of geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in November. We believe this is the peak for Bank Rate.

- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Quarter 3 2024 to a low of around 3% by early-mid 2026.

- The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.

- Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Annex B - Existing Investment & Debt Portfolio Position at 30 September 2023

Treasury investments position

Investments	**31/03/2023 Balance £m**	**Net movement £m**	**30/09/2023 Balance £m**	**30/09/2023 Income return %**	**30/09/2023 Weighted average maturity years**
Short term investments					
Banks and building societies:					
- Unsecured	38.8	(31.4)	7.4	4.5%	0.01
- Secured	10.0	(10.0)	0.0		
Money Market Funds	306.0	(237.7)	68.3	5.3%	0.01
Government:					
- Local Authorities	78.0	40.0	118.0	4.6%	0.42
- UK Treasury Bills	58.7	(33.7)	25.0	4.6%	0.06
Cash Plus Funds	10.0	0.0	10.0	2.9%	0.01
	501.5	**(272.8)**	**228.7**	**4.7%**	**0.32**
Long term investments					
Banks and building societies:					
- Secured	27.2	(14.3)	12.9	4.6%	1.87
- High Quality	0.0	38.9	38.9	5.7%	2.26
Government:					
- Supranational Banks	0.0	45.0	45.0	4.8%	3.31
- Local authorities	23.3	0.3	23.6	5.5%	9.44
Pooled funds:					
- Pooled property*	75.0	0.0	75.0	3.8%	N/A
- Pooled equity*	51.0	(21.0)	30.0	8.2%	N/A
- Pooled multi-asset*	48.5	(48.5)	0.0		
	225.0	**0.4**	**225.4**	**5.2%**	**4.02**
Total Investments	**726.5**	**(272.4)**	**454.1**	**4.9%**	**1.47**
Thames Basin Heath pooled fund investments	13.5	1.5	15.0		
Total	**740.0**	**(270.9)**	**469.1**		

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 September 2023 based on the market value of investments 12 months earlier.

Treasury management position	**30/09/2023 Balance £m**	**30/09/2023 Rate %**
External Borrowing:		
- PWLB Fixed Rate	(168.0)	4.69%
- Other Loans (including LOBO Loans)	(12.0)	4.19%
- Other Short-term Borrowing*	(50.0)	0.00%
Total External Borrowing	**(230.0)**	**3.65%**
Other Long-Term Liabilities:		
- Street Lighting PFI	(83)	
- Waste Management Contract	(38)	
- Leases	0	
Total Other Long-Term Liabilities	(121)	
Total Gross External Debt	**(351.0)**	
Investments	**454.1**	**4.94%**
Net (Debt) / Investments	**103.1**	

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee	Audit Committee
Date:	14 December 2023
Title:	The Code of Corporate Governance
Report From:	Director of People and Organisation

Contact name: David Kelly, Assistant Director-Legal Services and Monitoring Officer

Email: David.Kelly@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to inform the Audit Committee about a review of the County Council's Code of Corporate Governance which sets out the commitments to good governance made by the County Council and attaches an appendix which incorporates an evidence document identifying the systems, processes and documentation which demonstrate compliance with the commitments ("the Appendix to the Code of Corporate Governance") and to seek approval of the revised Code of Corporate Governance into the County Council's corporate governance framework. Furthermore, it is proposed that authority be delegated to the Monitoring Officer to approve future amendments to the Appendix to the Code of Corporate Governance to reflect any updates made to the corporate systems, processes and documentation referenced within it.

Recommendation(s)

2. That the Audit Committee consider and approve the revised Code of Corporate Governance as set out in Annex 1 to this Report.

3. That the Audit Committee delegate authority to the Monitoring Officer to approve future amendments to the Appendix to the Code of Corporate Governance to reflect any updates made to the corporate systems, processes and documentation referenced within it.

Executive Summary

4. This report seeks to:
   - Set out the background to the review of the Code of Corporate Governance;

- Present a revised and updated Code of Corporate Governance for approval; and
- Propose that delegated authority be given to the Monitoring Officer to approve future amendments to the Appendix to the Code of Corporate Governance to reflect any updates made to the corporate systems, processes and documentation referenced within it.

5. Pursuant to Part 1, Chapter 7 of the County Council's Constitution, paragraph 3.2.1, the Terms of Reference of the Audit Committee include monitoring the roles, processes and behaviour that affect the way that governance is exercised within the County Council and in particular the adoption, review and amendment of the Corporate Governance Framework for the County Council within the County Council's Constitution.

Contextual information

6. The County Council's current Code of Corporate Governance was adopted by the Audit Committee on 2 February 2017. It is based upon the principles set out in the "Delivering Good Governance in Local Government: Framework" (The CIPFA Framework) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2016. The Framework sets the highest standard for local authority governance and seeks to ensure that robust arrangements are not only in place but are supported by effective mechanisms for control and risk management. The CIPFA Framework encourages local authorities to ensure that their governance arrangements are kept up-to-date and relevant.

7. The County Council's commitments within its Code of Corporate Governance mirror the core principles and actions set out in the CIPFA Framework and it was identified as part of the review that these remain current. Therefore, no amendment to these commitments is proposed. However, the strategic overview comprising the evidence document identifying the systems, processes and documentation which demonstrate compliance with the commitments contained within the Appendix to the Code of Corporate Governance has been revised and updated for approval by the Audit Committee. A copy of the revised Code of Corporate Governance is attached at Annex 1.

8. During the review, it became apparent that some of the corporate systems, processes and documentation referenced in the Appendix to the Code of Corporate Governance are reviewed and updated annually which may result in regular changes to the names of systems, processes and documentation and/or updated weblinks. It is desirable for the Appendix to the Code of Corporate Governance to remain up-to-date for openness and transparency purposes. Accordingly, it is proposed that the Monitoring Officer be delegated authority to approve future amendments to the Appendix to the Code of

Corporate Governance to reflect any updates made to the corporate systems, processes and documentation referenced within it. Such updates are an administrative function and any substantive changes would be proposed as part of a future review of the full Code of Corporate Governance.

Finance

9. There are no financial implication arising from this report.

Performance

10. In addition to the annual review of the effectiveness of the system of internal control that is undertaken prior to the preparation of the Annual Governance Statement, the Code of Corporate Governance review process serves to prompt officers to consider how the County Council's corporate governance framework might be improved in line with best practice. It is intended that future reviews of the Code of Corporate Governance will be undertaken every two years as feedback from officers participating in the most recent review supported a more regular review cycle.

Consultation and Equalities

11. The review process involved a number of officers who are responsible for corporate systems, processes and documentation within the County Council.

12. An Equality Impact Assessment has been completed which has not identified any impact on equality.

Climate Change Impact Assessment

13. 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.

14. The carbon mitigation tool and/or climate change adaptation tool were not applicable because the decision relates to a programme and is strategic/administrative in nature.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

OR

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:

The Corporate Governance Framework is an integral part of the County Council's Governance arrangements.

Other Significant Links

Links to previous Member decisions:

Title	Date
Corporate Governance Framework	02 Feb 2017
Corporate Governance Framework	13 Feb 2014

Direct links to specific legislation or Government Directives

Title	Date
Accounts and Audit 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.)

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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:**

No equality impacts have been identified in relation to the Recommendations in this Report.

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Hampshire County Council

Code of Corporate Governance

Introduction

This Code of Corporate Governance is based upon the CIPFA / SOLACE document entitled “Delivering Good Governance in Local Government: Framework 2016 Edition.”

What do we mean by Governance?

‘The International Framework: Good Governance in the Public Sector’ defines ‘governance’ as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The Framework also states that to deliver good governance in the public sector both governing bodies and individuals working for them must try to achieve their entity’s objectives while acting in the public interest at all times.

The Code of Corporate Governance is based on seven core principles:-

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
B. Ensuring openness and comprehensive stakeholder engagement
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
D. Determining the interventions necessary to optimize the achievement of the intended outcomes
E. Developing the County Council’s capacity, including the capability of its leadership and the individuals within it
F. Managing risks and performance through robust internal control and strong public financial management
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The County Council’s Code of Corporate Governance specifically identifies the actions to be taken in relation to each of these principles. The Code, along with its supporting infrastructure is set out in diagrammatic form in the Appendix.

The Audit Committee is currently responsible for approving this Code and ensuring it is kept up to date.

Actions to be taken by the County Council in relation to each principle of corporate governance.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Behaving with integrity

The County Council will:-

- Ensure that Members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the County Council
- Ensure that Members take the lead in establishing specific standard operating principles or values for the County Council and its staff and that they are communicated and understood. These will build on the Seven Principles of Public Life (The Nolan Principles)
- Lead by example and use the above standard operating principles or values as a framework for decision making and other actions
- Demonstrate, communicate and embed the standard operating principles or values through appropriate policies and processes which will be reviewed on a regular basis to ensure they are operating effectively

Demonstrating strong commitment to ethical values

The County council will:-

- Seek to establish, monitor and maintain the County Council's ethical standards and performance
- Underpin personal behaviour with ethical values and ensure they permeate all aspects of the County Council's culture and operation
- Develop and maintain robust policies and procedures which place emphasis on agreed ethical values
- Ensure that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the County Council

Respecting the Rule of Law

The County Council will:-

- Ensure Members and staff demonstrate a strong commitment to the rule of the law as well as adhere to relevant laws and regulations

- Create the conditions to ensure that the statutory officers, other key post holders, and Members are able to fulfil their responsibilities in accordance with legislative and regulatory provisions
- Strive to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders
- Deal with breaches of legal and regulatory provisions effectively
- Ensure corruption and misuse of power are dealt with effectively

B. Ensuring an openness and comprehensive stakeholder engagement

<u>Openness</u>

The County Council will:-

- Ensure an open culture through demonstrating documenting and communicating the County Council's commitment to openness
- Make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption will be for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential will be provided.
- Provide clear reasoning and evidence for decisions in both public records and explanations to stakeholders and will be explicit about the criteria, rationale and considerations used. In due course, the County Council will ensure that the impact and consequences of those decisions are clear.
- Use formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action

<u>Engaging comprehensively with institutional stakeholders</u>

The County Council will:-

- Effectively engage with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably
- Develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively
- Ensue that partnerships are based on:-
    - trust
    - a shared commitment to change
    - a culture that promotes and accepts challenge among partners

  and that the added value of partnership working is explicit

Engaging stakeholders effectively, including individual citizens and service users effectively

The County Council will:-

- Establish a clear policy on the type of issues that the County Council will meaningfully consult with or involve communities individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes
- Ensure that communication methods are effective and that Members and officers are clear about their roles with regard to community engagement
- Encourage, collect and evaluate the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs
- Implement effective feedback mechanisms in order to demonstrate how their views have been taken into account
- Balance feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity
- Take account of the interests of future generations of tax payers and service users

C. Defining outcomes in terms of sustainable economic, social and environmental benefits

Defining outcomes

The County Council will:-

- Have a clear vision, which is an agreed formal statement of the County Council's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the County Council's overall strategy, planning and other decisions
- Specify the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer
- Deliver defined outcomes on a sustainable basis within the resources that will be available
- Identify and manage risks to the achievement of outcomes
- Manage service users expectations effectively with regard to determining priorities and making the best use of the resources available

Sustainable economic, social and environmental benefits

The County Council will:-

- Consider and balance the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision
- Take a longer- term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints
- Determine the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs
- Ensure fair access to services

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Determining interventions

The County Council will:-

- Ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided
- Consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts

Planning interventions

The County Council will:-

- Establish and implement robust planning and control cycles that cover strategic and operational plans, priorities and targets
- Engage with internal and external stakeholders in determining how services and other courses of action should be planned and delivered
- Consider and monitor risks facing each partner when working collaboratively including shared risks

- Ensure arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances
- Establish appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured
- Ensure capacity exists to generate the information required to review service quality regularly
- Prepare budgets in accordance with organisational objectives, strategies and the medium term financial plan
- Inform medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

Optimising achievement of intended outcomes

The County Council will:-

- Ensure the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints
- Ensure the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term
- Ensure the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage
- Ensure the achievement of ‘social value’ through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is “the additional benefit to the community…over and above the direct purchasing of goods, services and outcomes”

E. Developing the County Council’s capacity, including the capability of its leadership and the individuals within it

Developing the County Council’s capacity

The County Council will:-

- Review operations, performance use of assets on a regular basis to ensure their continuing effectiveness
- Improve resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the County Council’s resources are allocated so that outcomes are achieved effectively and efficiently
- Recognise the benefits of partnerships and collaborative working where added value can be achieved

- Develop and maintain an effective workforce plan to enhance the strategic allocation of resources

Developing the capability of the County Council's leadership and other individuals

The County Council will:-

- Develop protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained
- Publish a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body
- Ensure the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the County Council in implementing strategy and managing the delivery of services and other outputs set by Members and each provides a check and a balance for each other's authority
- Develop the capabilities of Members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:
    - ensuring Members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged
    - ensuring Members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis
    - ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external
- Ensure that there are structures in place to encourage public participation
- Take steps to consider the leadership's own effectiveness and ensure leaders are open to constructive feedback from peer review and inspections
- Hold staff to account through regular performance reviews which take account of training or development needs
- Ensure arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

F. Managing risks and performance through robust internal control and strong public financial management

Managing Risk

The Council will:-

- Recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making
- Implement robust and integrated risk management arrangements and ensure that they are working effectively
- Ensure that responsibilities for managing individual risks are clearly allocated

Managing Performance

The Council will:-

- Monitor service delivery effectively including planning, specification, execution and independent post implementation review
- Make decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the County Council's financial, social and environmental position and outlook
- Ensure an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the County Council's performance and that of any organisation for which it is responsible
- Provide Members and senior management with regular reports on service delivery plans and on progress towards outcome achievement
- Ensure there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements)

Robust internal control

The Council will:-

- Align the risk management strategy and policies on internal control with achieving objectives
- Evaluate and monitor the County Council's risk management and internal control on a regular basis
- Ensure effective counter fraud and anti-corruption arrangements are in place
- Ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor

- Ensure an audit committee which is independent of the executive and accountable to the County Council:
  - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment
  - that its recommendations are listened to and acted upon

<u>Managing Data</u>

The Council will:-

- Ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data
- Ensure effective arrangements are in place and operating effectively when sharing data with other bodies
- Review and audit regularly the quality and accuracy of data used in decision making and performance monitoring

<u>Strong public financial management</u>

The Council will:-

- Ensure financial management supports both long term achievement of outcomes and short-term financial and operational performance
- Ensure well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Implementing good practice in transparency

The Council will:-

- Write and communicate reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience ensuring that they are easy to access and interrogate
- Strike a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand

Implementing good practices in reporting

The Council will:-

- Report at least annually on performance, value for money and the stewardship of its resources to stakeholders in a timely and understandable way
- Ensure Members and senior management own the results
- Ensure robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publish the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement)
- Ensure that the Framework is applied to jointly managed or shared service organisations as appropriate
- Ensure the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations

Assurance and effective accountability

The Council will:-

- Ensure that recommendations for corrective action made by external audit are acted upon
- Ensure an effective internal audit service with direct access to Members is in place which provides assurance with regard to governance arrangements and that recommendations are acted upon
- Welcome peer challenge, reviews and inspections from regulatory bodies and implement recommendations
- Gain assurance on risks associated with delivering services through third parties and evidence this in the annual governance statement
- Ensure that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met

Appendix Hampshire County Council Corporate Governance Framework

'The International Framework: Good Governance in the Public Sector' defines 'governance' as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The framework also states that to deliver good governance in the public sector both governing bodies and individuals working for them must try to achieve their entity's objectives while acting in the public interest at all times.

Core Principles	**(A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**	**(B) Ensuring openness and comprehensive stakeholder engagement**	**(C) Defining outcomes in terms of sustainable economic, social, and environmental benefits**	**(D) Determining the interventions necessary to optimise the achievement of the intended outcomes**	**(E) Developing the County Council's capacity, including the capability of its leadership and the individuals within it**	**(F) Managing risks and performance through robust internal control and strong public financial management**	**(G) Implementing good practices in transparency, reporting, and audit to deliver effective accountability**
Evidence of Good Governance	Code of Conduct for Members Protocol for Member Officer Relations Local Protocol on Planning, Rights of Way, Commons and Village Green Registration Member Contact Protocol Conduct Advisory Panel Officers Code of Conduct Prosecution Protocol Published Registers of Interest Declaration of Acceptance of Office Member Induction Programme Officer Induction Programme Valuing Performance Framework Chief Executive Blogs / Director Blogs for Officers Serving Hampshire - Strategic Plan 2021 to 2025 Directorate Schemes of Authorisation Executive Decision-Making Protocol Non-Executive Decision-Making Protocol Recording Office Decision Guidance Report Writing Guide Member's Grants Protocol	Serving Hampshire – end of year performance report 2022/23 Publication Scheme Open Data and Transparency Budget, spending and performance Serving Hampshire - Strategic Plan 2021 to 2025 Hampshire County Council Published meeting minutes / Decision Records Approved Members' Allowances Scheme Independent Remuneration Panel appointed Executive Decision Making Protocol Non-Executive Decision-Making Protocol Recording Officer Decision Guidance Report Writing Guide County Councillor Grants Protocol Select (Overview and Scrutiny) Committees Operating Protocol Decision Report template Legal Case Management System	Serving Hampshire - Strategic Plan 2021 to 2025 Consultations Directorate service plans Serving Hampshire – end of year performance report 2022/23 Risk Management Steering Group and subgroups (Information Governance, Resilience, Health and Safety) Corporate Risk Management System Annual risk report to Cabinet Annual report to Audit Committee Risk Management Strategy Good practice Risk Management guidance Business Continuity Service Plans and Corporate Resilience Framework Information Governance Framework Corporate Health and Safety Policy and Procedures Hampshire County Council consultation policy Communications around key decisions to share messages about priorities and use of resources	Protocol for Member Officer Relations Member Briefing Programme Chairman's briefings prior to Member meetings Executive Decision Making Protocol Non-Executive Decision-Making Protocol Recording Officer Decision Guidance Report Writing Guide County Councillor Grants Protocol Select (Overview and Scrutiny) Committees Operating Protocol Hampshire County Council Budget Consultation 2023 Hampshire County Council consultation policy Medium Term Financial Strategy Update and Savings Programme to 2025 Revenue Savings Proposal.pdf Annual Revenue Budget, Precept and Capital Programme Report Notice of Key Decisions Officer run-in timetables for formal Member Decision Days, Committees and Panels Let's go co-pro Stakeholder engagement	Partnerships are appropriately documented with effective governance arrangements. Annual Workforce Report Recruitment Policy HCC Employment Collective Agreement 2007 Organisational development plan Officer role profiles Protocol for Member Officer Relations The Constitution of Hampshire County Council Directorate Schemes of Delegation Leader and Executive Member roles are defined in the Constitution Executive Functions Corporate Management Team Member training programme as agreed by the Member Development Group Member Briefing Programme for briefings on new legislation Audit Committee Training Officer Induction Programme Member Induction Programme Valuing Performance Framework (for officers) Member Development Group	Risk Management Strategy Business Continuity Management Risk Management Steering Group Annual report to Audit Committee and Cabinet Six monthly risk reporting to Corporate Management Team Corporate Risk Register Business Continuity System Key Performance Measures in relation to the County Councils strategic plan, Serving Hampshire Serving Hampshire - Strategic Plan 2021 to 2025 Updates on progress against priorities and performance measures published in formal reports to Cabinet H2050 Vision Revalidation and mid-year review of Hampshire County Council's Serving Hampshire Strategic Plan-2023-07-18-Cabinet External Audit VFM conclusion Calendar of Meetings Notice of Key Decisions Protocol for Member Officer Relations Member Briefing Programme Chairman's Briefing	Reports requiring a Member decision published on website Published Officer decisions Serving Hampshire – end of year performance report 2022/23 Publication Scheme Open Data and Transparency Statement of Accounts and Budget Book External Audit results report Serving Hampshire - Strategic Plan 2021 to 2025 Annual Governance Statement Code of Corporate Governance Partnerships are appropriately documented with effective governance arrangements. Update Reports to Audit Committee and Corporate Management Team External Quality Assessment Internal Audit Progress Report Audit Committee appointed Annual Internal Audit Charter Regulatory inspections (e.g. Ofsted) External Auditor's opinions Updates on risk management approach and actions provided within Annual Governance Statement

Appendix Hampshire County Council Corporate Governance Framework

Select (Overview and Scrutiny) Committees Operating Protocol Published meeting minutes / Decision Records Committee Procedures Guidance Notes County Council Standing Orders Decision Report template Equalities Impact Assessment guidance for officers Hampshire County Council consultation policy Report Writing Guide Conduct Advisory Panel Terms of Reference Arrangements for dealing with complaints Hearing Procedure Independent Persons appointed for Standards matters Corporate Anti-Fraud and Corruption Strategy Members' Register of Interests Reminders about officers' interests in contracts with the County Council Members' Register of Gifts and Hospitality Officers' Register of Gifts and Hospitality Whistleblowing Policy Customer Feedback/Complaints Process Annual Complaints Report from Monitoring Officer (Annual Performance Report)	Legal Services Lexcel Accreditation Protocol for Member Officer Relations Member Briefing Programme Chairman's Briefing Legal review of all Reports Calendar of Meetings Notice of Key Decisions Consultations Hampshire County Council Budget Consultation 2023 Hampshire Perspectives Have Your Say Your Hampshire Leader's Blog Communications approach agreed with Leader around three themes: - Serving Hampshire - Making the most of your money - Hampshire 2050 Partnerships are appropriately documented with effective governance arrangements Consultations Hampshire County Council consultation policy Joint Strategic Needs Assessment Budgets, Spending and Performance	Hampshire County Council Budget Consultation 2023 Corporate Capital Programme Report Annual Revenue Budget, Precept and Capital Programme Report Report Writing Guide Executive Decision-Making Protocol Planning a Decision Guide Decision Report template Protocol for Member Officer Relations Member Briefing Programme Decision Reports reflect Officers' professional advice Medium Term Financial Strategy is clear on organisational financial challenges Section 151 Officer opinion Published meeting minutes / Decision Records Equality objectives and Zero Tolerance statement Inclusion Strategy Inclusion Diversity and Wellbeing Programme Equality Impact Assessments Directorate Inclusion Assessments and Inclusion Action Plans Directorate assessment framework for inclusion and diversity	Communications approach agreed with Leader around three themes: - Serving Hampshire - Making the most of your money - Hampshire 2050 Partnerships are appropriately documented with effective governance arrangements. Risk Management Strategy Corporate Strategic Risk Register Directorate Project Management Directorate Service Plans Serving Hampshire - Strategic Plan 2021 to 2025 Updates on progress against priorities and performance measures published in formal reports to Cabinet Mid-term review of Serving Hampshire Strategic Plan and development of new Performance Assurance Framework completed in 2023 Directorate service reports Revenue Forward Budget Corporate Finance Budget Planning Guidance Financial Regulations Financial Procedures Role of Finance Team and Finance Business Partners Social value toolkits used on all procurements Procurement Best Practice Guide	Periodic training delivered to Select Committee Member Code of Conduct training Members IT access IT Helpdesk Digital Strategy Use of Modern.Gov for meeting documents Learning Zone Internal Audit Hampshire Perspectives Stakeholder Engagement Inclusion Strategy Wellbeing Session Programme Wellbeing SharePoint Pages Inclusion and Wellbeing Passport Wellbeing Action Plans Wellbeing Guides for staff and managers Health Assured (HCC employee assistance provider) Staff Networks Staff Yammer Groups Diversity role models Corporate Health and Safety Policy Corporate Health and Safety Statement of Intent	Published information about meetings Executive Decision-Making Protocol Non-Executive Decision-Making Protocol S.151 Officer advice (input to and sign off Cabinet / Council reports) The Constitution of Hampshire County Council Minutes of scrutiny meetings and Annual Report of the H2050, Corporate Services & Resources Select Committee Member training programme as agreed by the Member Development Group Periodic training delivered to Select Committee Notice of Key Decisions Financial Policies & Procedures Financial Management Budget Monitoring Reports to Cabinet and Corporate Management Team Monthly Financial Resilience reporting and review between the Directors of Adults and Children's Services and the S151 Officer Financial Rules and Regulations Risk Management Governance Annual Risk Report to Cabinet Annual Risk Report to Audit Commmitee Internal Audit Audit Committee oversight	Corporate Strategic Risk Registers Directorate Level Risk Registers Corporate Risk Management System Risk Management guidance Internal Audit Plan providing regular review of contract management and Partnership arrangements

	Annual Reports on children's social care services Annual Report on Adult Social Care complaints Five Select (Overview and Scrutiny) Committees appointed Conduct Advisory Panel Audit Committee appointed Appointment of an Inclusion and Diversity Member champion Executive Member for Performance, Human Resources, Communications and Inclusion and Diversity Member Code of Conduct Training Ethical Governance e-learning Training for procurement evaluators on procurement principles and conflicts of interest are identified and managed Valuing Performance Framework Vision and values | Staff and managers Recruitment Policy Procurement Best Practice Guide Corporate Procurement Strategy Standard ethical values provision in contracts and service specifications where appropriate Partnerships are appropriately documented with effective governance arrangements. Corporate Legal Advisors for each Directorate	Statement of Accounts and Budget Book				External Audit Bribery Act Policy Corporate Anti-Fraud and Corruption Strategy Annual Governance Statement Annual Internal Audit Report Audit Committee Terms of Reference Audit Committee details Audit Committee training Data Protection Policies Safe Information Handling Policy and Guidance Information Governance Strategy Hampshire County Council privacy notices Registration with Information Commissioner's Office Designated Data Protection Officer Directorate level DP Coordinators and Senior Information Risk Owners Data Sharing Protocol Data Sharing Guidance Data Sharing Agreement Corporate Template Data Sharing support Corporate and Directorate level Data Sharing Registers Strategic procurement guidance Procurement support Legal Services contract support guidance	

Page 172	Role Profiles of senior legal officers providing support to Monitoring Officer Monitoring Officer and Deputies Monitoring Officer monthly meetings with Chief Executive Quarterly meeting of the Chief Executive, Section 151 Officer and Monitoring Officer Decision Making Protocols Monitoring Officer's access to Corporate Management Team meetings when requested Legal Adviser input to decision reports and attendance at meetings of Council, Executive and committees. Legislation Implementation and Review Group Inhouse legal team and Directorate lead legal advisors The Constitution of Hampshire County Council Officer role profiles Financial Regulations Scrutiny Provisions within the Constitution Legal Case Management System Legal Services Lexcel Accreditation Head of Legal Services / Monitoring Officer Corporate Anti-Fraud and Corruption Strategy Bribery Act Policy					Data Protection Impact Assessments and Privacy Notice guidance Internal audit reports Data validation procedures Medium Term Financial Strategy Update and Savings Programme to 2025 Revenue Savings Proposal.pdf Annual Revenue Budget, Precept and Capital Programme Report Revenue Budget Appendix 6 - Section 25 Report from Chief Financial Officer.pdf Reserves Strategy Treasury Management Strategy and Investment Strategy External Audit VFM conclusion Finance Policies & Procedures Savings programmes reports	

AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at the castle, Winchester on Friday, 28th July, 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	* D. Drew

Employer Representatives (Co-opted members):
Councillor S. Leggett (Southampton City Council)
* Councillor P. Taylor (District Councils - Rushmoor Borough Council)
Ms F. Hnatow (University of Portsmouth)
* Councillor J. Smyth (Portsmouth City Council)

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

Independent Adviser:
* C. Dobson

*Present

Also present with the agreement of the Chairman: Councillor Davies as an observer

130. **APOLOGIES FOR ABSENCE**

Councillors Glen and Leggett and Ms Hnatow sent their apologies.

131. **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.

132. **CONFIRMATION OF MINUTES OF PREVIOUS MEETING (PUBLIC)**

The minutes of the Pension Fund Panel and Board held on 24 March 2023 were confirmed as a correct record and signed by the Chairman.

133. **DEPUTATIONS**

No deputations were received by the Panel and Board on this occasion.

134. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman and the committee thanked and congratulated Dr Cliff Allen for his service to the Pension Fund at the last meeting of his term as the pensioner representative on the Panel and Board. An advertisement has now been published for a new representative and the Director of Corporate Operations will hold interviews in September 2023.

The Chairman confirmed for the committee that the unitary representative has transferred from Portsmouth to Southampton City Council for the new municipal year, with Cllr Leggett being the current representative and Cllr Smyth the deputy employer representative.

Cllr Kemp-Gee highlighted to the committee that the Government is consulting on ‘Next steps on investment’ including proposals on investment pooling and local investment. The consultation was shared with Members by the Director. The consultation closes on 2 October 2023. It is expected that draft consultation responses will be on the Panel and Board’s agenda for the next meeting on 29 September 2023.

135. **GOVERNANCE: RESPONSIBLE INVESTMENT SUB-COMMITTEE APPOINTMENTS**

The Panel and Board considered a report of the Director of Corporate Operations (item 6 in the Minute Book) for appointments to be made to the Pension Fund’s Responsible Investment Sub-Committee. The terms of reference for a Responsible Investment (RI) sub-committee specify that the sub-committee’s membership will be reviewed annually by the Panel and Board ‘following the principle that appointments will rotate annually where practical and taking proportionality requirements into account’.

RESOLVED:

That Cllrs Kemp-Gee, Thacker, Davies, and Hiscock, Ms Gowland were appointed to the Responsible Investment Sub-Committee with the employer representative to be confirmed later.

136. **ACCESS JOINT COMMITTEE MINUTES - 6 MARCH 2023 (PUBLIC)**

The Panel and Board received the (non-exempt) minutes of the ACCESS Joint Committee on 6 March 2023.

137. **GOVERNANCE: INTERNAL AUDIT OPINION 2022/23**

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 Chief Internal Auditor's opinion on the adequacy and effectiveness of internal control of the Pension Fund. 'Substantial Assurance' can be placed on the Pension Fund's framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice.

138. **GOVERNANCE: PENSION ADMINISTRATION AND FUND ACTUARY INTRODUCTION**

The Panel and Board received and noted a report from the Director of Corporate Operations (Item 9 in the Minute Book) on the administration of the Pension Fund in 2022/23. Pension Services have performed well against the four key measures for good administration in 2022/23. The 2022/23 administration cost per member was £13.83 (£12.82 in 2021/22). The increase in cost from the previous year was due to the work on the McCloud remedy for which the Fund's share was £104,000 (51p per member). There will be further costs in relation to Pension Services current key projects the McCloud remedy, Guaranteed Minimum Pensions (GMP) rectification and Pension Dashboards over the next two years.

The Director provided an update on key business as usual work and planned projects:

- Over 87,500 members have now registered for the Member Portal.
- The Government has recently closed its consultation on draft regulations for McCloud. Legislation is expected before the effective date of 1 October 2023 but there remains a number of issues to be resolved.
- Work to prepare data for the Pension Dashboards programme has continued despite the Government announcing a delay to the overall project.
- The rectification stage of the GMP reconciliation project has started with the aim of correcting any under or over paid pension payments over the next six months.
- Employers have provided their annual returns which provided information on active members and is used to produce annual benefit statements and valuation data. All these returns have been uploaded onto the pension administration system, although there has continued to be a decline in timeliness and quality this year due in part to employers experiencing resourcing pressures.

Representatives of Hymans Robertson – the Pension Fund's new actuary attended the meeting to introduce themselves to the committee.

139. **INVESTMENT: CASH OUTTURN REPORT**

The Panel and Board received a report from the Director of Corporate Operations (Item 10 in the Minute Book) on the management of the Pension Fund's cash balances in 2022/23. The Pension Fund receives cash each month from contributions made by employees and employers, and from investment income. The Pension Fund requires a cash balance to be able to pay pensions and other costs. There are rigorous procedures in place to ensure the security of all cash deposits which are managed by the County Council in separate investment accounts for the Pension Fund. These include criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty as set out in the Pension Fund's Annual Investment Strategy for 2022/23 for cash, which was approved by the Pension Fund Panel and Board on 16 December 2022 and has been complied with.

The Pension Fund can confirm its net position from dealing with members at the end of 2022/23, the end of the three-year triennial valuation period which shows net additions of £53.9m over 3 years. As reported to the Panel and Board in March 2023 as part of the consideration of the revised investment strategy, the Fund is forecast to move into a cashflow deficit in the new triennial period as the inflationary increase to benefits paid outstrips contributions. The forecast shortfall from dealing with members is £28m p.a. The revised investment strategy agreed in March 2023 included changes to take income from more of the Fund's portfolios to help mitigate this shortfall.

RESOLVED:

That the outturn report on the Pension Fund's cash management in 2022/23 was approved.

140. **GOVERNANCE: RISK MANAGEMENT**

The Panel and Board received a report from the Director of Corporate Operations (Item 11 in the Minute Book) introducing the Pension Fund's Risk Register. The Risk Register continues to use Hampshire County Council's risk scoring methodology, with the exception that the financial values have been revised to reflect the size of the Pension Fund. Further consideration will be given to how the respective categories are mapped to the Pension Fund.

Since it was last reported to the Panel and Board in the Fund's Business Plan in December 2022, one risk has been amended. The scope of investment pooling risk has been widened to include the risk of an unfavourable outcome as a result of further regulation. The likelihood of this risk has also been increased following the consultation published after the Chancellor's Mansion House speech in July 2023.

RESOLVED:

That the amended Risk Register was approved.

141. **GOVERNANCE: ANNUAL REPORT**

The Panel and Board received a report from the Director of Corporate Operations (Item 12 in the Minute Book) introducing the 2022/23 draft Pension Fund Annual Report. The Pension Fund's accounts are included in the Annual Report. The accounts are subject to audit and it may therefore be necessary to make minor changes to the Annual Report at the conclusion of the audit. As the Pension Fund accounts are part of the County Council's accounts, the Pension Fund's accounts cannot be signed off until the audit of the County Council's accounts is complete. As the 2021/22 audit of the Council's accounts has not yet been completed the Pension Fund Annual Report and Accounts 2021/22 remain in draft.

The Annual Report includes details of the Fund's governance, administration, and investments, as well as the Fund's accounts. The annual report also includes additional information on pooling, including:

- details of the ACCESS pool's annual report
- an update on progress with investment pooling.

The Director reported the total cost of managing the Pension Fund in 2022/23 which was presented based on CIPFA's guidance, which includes additional requirements for the Fund's Annual Report to report on investment management costs for pooled and non-pooled investments. The investment management costs of pooled investments are disproportionately lower than the non-pooled investments because of the different assets in each category. During 2022/23, Hampshire's net cumulative saving from pooling with ACCESS increased to £4.8m.

RESOLVED:

- That the contents of the draft Annual Report for 2022/23 was noted and approved for publication.
- That authority was delegated to the Director of Corporate Operations to make any necessary minor amendments to the Annual Report prior to publication. Any significant changes will be reported back to the Panel and Board at a future meeting.
- That the remainder of the report, including the total cost of managing the Fund, was noted.

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

RESOLVED:

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

143. **CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING (EXEMPT)**

The exempt minutes of the Pension Fund Panel and Board held on 24 March 2023 were confirmed as a correct record and signed by the Chairman.

144. **ACCESS JOINT COMMITTEE MINUTES (EXEMPT) 6 MARCH 2023**

The Panel and Board received the (exempt) minutes of the ACCESS Joint Committee on 6 March 2023.

145. **GOVERNANCE: ANNUAL REPORT - EXEMPT APPENDIX**

The Panel and Board considered and noted the exempt appendix from the Director of Corporate Operations (Item 16 in the Minute Book) containing details of the Pension Fund's investment management costs.

146. **GOVERNANCE: CYBERSECURITY UPDATE**

The Panel and Board considered the exempt report from the Director of Corporate Operations (Item 17 in the Minute Book) updating the Panel and Board on the cybersecurity of the Pension Fund.

(Summary of an exempt minute)

147. **INVESTMENTS: CUSTODIAN UPDATE**

The Panel and Board considered the exempt report from the Director of Corporate Operations (Item 18 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's custodian.

(Summary of an exempt minute)

148. **INVESTMENTS: INVESTMENT UPDATE**

The Panel and Board considered the exempt report from the Director of Corporate Operations (Item 19 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments.

(Summary of an exempt minute)

Chairman, 29 Septmeber 2023

HAMPSHIRE COUNTY COUNCIL

Committee:	Audit Committee
Date:	14 December 2023
Title:	Corporate Risk Management Update
Report From:	Carolyn Williamson, Chief Executive Jac Broughton, Director, People and Organisation

Contact name: Steph Randall

Email: stephanie.randall@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to update the Audit Committee on the County Council's Corporate risk management framework and a summary of the key corporate strategic risks that are included in the County Council's Corporate Risk Register. It will also set out the risk profile of the organisation and the risk management arrangements in place, including governance and processes.

Recommendation

2. That the Committee notes the risk profile of the organisation and the risk management arrangements in place across the County Council.

Executive Summary

3. This report seeks to highlight the core governance, reporting and accountability arrangements that continue to be in place for the County Council's risk management framework. This includes regular discussions on risk, and senior level visibility of risk management across the organisation. The Corporate Risk Management Steering Group (RMSG) meet every two months and provide regular reports to the Corporate Management Team (CMT). This year has also seen an in-depth strategic discussion at CMT to refine the Corporate Strategic Risk Register. In addition, the annual corporate risk report has been presented to Cabinet on 10 October 2023.

4. The risk management framework is supported by the Risk Management Strategy 2022-25 (Appendix A) that was agreed by Cabinet on 18 October 2022. The Strategy defines the approach the organisation has adopted to embed risk management into its processes, practices and culture. It sets out

a structured and coherent approach to risk management, tailored to how the County Council identifies, assesses, and manages risk. Aimed at all levels of staff, the Strategy is relevant for all layers of the organisation, particularly given the breadth and nature of risks that require effective management.

5. A summary of the Corporate Strategic Risk Register is set out in a separate and confidential appendix to this report (see Appendix C).

Contextual information

6. A previous report was presented on the County Council's risk management arrangements to the Audit Committee on 22 December 2022. This report is provided on an annual basis.

7. Following a similar approach to last year, this report contains extensive details of the County Council's risk process and governance structure, including the operation of the Risk Management Steering Group (RMSG) as a pivotal role in driving forward effective management of risk. This report also sets out the clear position on the County Council's risk profile, and alignment with the strategic outcomes within the Serving Hampshire Strategic Plan.

8. As a major public sector organisation, the County Council continues to manage numerous risks that can be fluid in nature and are of varying significance and severity. External factors both nationally and internationally, result in emerging and changing risks to the County Council. It is therefore important that our approach to risk, both strategically and operationally, is kept under constant review and is an intrinsic part of our day-to-day activities.

Core governance and accountability arrangements

9. The governance structure surrounding risk management is fundamental to ensuring that risk is managed effectively and robustly. This structure includes senior level Officers and Members to ensure sufficient high-level visibility and engagement. It is also important to ensure that risks are managed effectively across all levels in the organisation. There are processes and guidance in place to enable this within directorates at service level. A well embedded internal framework of corporate groups covering key risk areas, has been in place for some time, and is working well.

10. In January 2023, the Corporate Risk Management function transferred to the People and Organisation directorate, following the organisation restructure at the start of the year. The responsibilities for Corporate Emergency Planning and Resilience, Corporate Health and Safety, and Information Compliance and Data Protection also moved across to People and Organisation at the

same time, placing leadership for all three underpinning risk management functions within one directorate.

11. Since January 2023, the overall accountability for Corporate Risk has been held by the Director of People and Organisation, through the leadership of the Deputy Director, who also chairs the corporate Risk Management Steering Group (RMSG), previously referred to as the Risk Management Board. There is resource is in place to support the risk management function, through a full time Senior Risk and Business Resilience Manager role in People and Organisation. This role supports the Deputy Director to develop further improvements in the County Councils' strategic approach to risk management, as well as to facilitate the corporate governance arrangements, oversight and assurance of our corporate strategic risks.

12. The RMSG is central to collectively driving forward effective risk management across the organisation, and acts as an escalation point to CMT on risk matters (see Appendix B for governance structure). The group is senior level and has cross-directorate representation. This ensures discussions are strategic in nature, and actions can be guided by those with senior level responsibility and knowledge within the key areas of risk. Representation includes Chief Officer Group members for Risk, Emergency Planning, and Health and Safety, Senior Information Risk Officers (SIRO) from each directorate, Head of Health & Safety, Head of Emergency Planning & Resilience, Chief Internal Auditor and the Senior Risk & Business Resilience Manager.

13. There are three corporate sub-groups that sit beneath the RMSG, each one is represented on the RMSG membership. This enables a central and co-ordinated point of escalation onwards into CMT for issues and concerns, as appropriate. The corporate sub-groups cover key and cross-cutting areas of the organisation. These are Health and Safety Management Group (HSMG), Resilience Management Group (RMG) and the Information Governance Management Group (IGMG).

14. Each sub-group plays a key role in escalating matters and decisions up to the RMSG, keeping the board well informed of progress on plans, strategies and improvements. This includes oversight and approval by the RMSG of key risk and resilience areas such as the new corporate wide business continuity system, the Hampshire County Council's Pandemic Framework, Bronze Group response framework, and the Information Governance Strategy 2022-2025.

15. Over the last year, the RMSG and associated three corporate sub-groups have actively continued to ensure the robust risk framework is maintained, and key strategic risk discussions take place. Each subgroup meets on a two monthly cycle to link with the RMSG meetings. These regular discussions

across corporate groups allow pertinent and current issues or developments to be discussed and escalated where needed.

16. In the case where a potentially significant new risk may need adding to the Corporate Risk Register, the RMSG provide challenge to ensure there is no duplication across other corporate risks. Once the RMSG is confident, the new risk is escalated to CMT for a decision on whether to include as a cross cutting strategic risk to the organisation.

17. The Health and Safety Management Group is Chaired by the Head of Health and Safety. The group looks at cross-cutting directorate health and safety matters and issues, in relation to both the public facing and organisation facing services. This includes discussing lessons learned from health and safety incidents that have taken place, as well as potential emerging issues. The views of the group are sought on proposed health and safety changes, including corporate health and safety procedures, policies and guidance.

18. The RMG is Chaired by the Head of Emergency Planning and Resilience. As a group, the RMG have supported the implemented the new corporate wide business continuity system (Meridian) and the transition from the previous system. As part of this transition, the directorates have been working towards updating Service Recovery Plans, to ensure the continuation of services' critical activity during an incident. The group also plays a key role in sharing learning from incidents and de-brief results, along with improving RMG members (and wider staff where appropriate) skills through corporate training and incident exercising. The expertise and knowledge of the group is used to develop and strengthen the content of Emergency Planning and Resilience Frameworks e.g. Pandemic Framework, Bronze Group framework.

19. The IGMG is Chaired by the Head of Information Governance. Some of the key focus areas for the group include delivery of the Information Governance Strategy 2022-25 and the implementation of a new system (eCase) to manage and process Freedom of Information (FOI) requests and Subject Access Requests across the organisation. In addition, the IGMG has overseen improvements to the Data Protection Information Assessment form process, and following the data breach at the PSNI on 8 August 2023, reminded directorates on the County Council's FOI process that is aligned with the Information Commissioner's Office (ICO) guidance.

20. In addition, performance trends and data are shared by each subgroup, with a view to providing recommendations for the RMSG to consider and agree on directorate or corporate level actions, where necessary.

21. The reporting structure for risk management in Appendix B sets out the frequency and type of reports. This enables the Corporate Management Team (CMT) and directorates to maintain regular discussions on key and

emerging risks. Each DMT undertake risk discussions as appropriate, and feed into the feed into the six-monthly risk reporting to CMT, via directorate key risk summary positions.

22. On an annual basis an outline is provided for the County Council's Annual Governance Statement (AGS), setting out how risks are managed through robust internal control and governance. This also includes specific actions relating to risk management, that are identified in the AGS Action Plan. For 2022/23, these actions included:

    a. Driving forward the Risk Strategy to ensure Risk Registers are reviewed and all risks contain appropriate control measures, with sufficient assurance that these are being managed effectively. Progress has been made against this action, as outlined in the governance, accountability, process and approaches sections in this paper.

    b. Aligning the County Councils Corporate Resilience framework with supporting plans and building further resilience and capability within the organisation to safeguard our ability to provide an effective response to emerging incidents which are outside of our control. Progress has been made against this action, as outlined in paragraph 46b. In addition, a new corporate strategic risk has been approved by CMT in relation to ensuring the County Council is able to sufficiently prepare for, respond to, and recover from emergency incidents.

Risk Management Strategy

23. The Hampshire County Council's Corporate Risk Management Strategy 2022-2025 (in Appendix A) defines the approach the organisation has adopted to embed risk management into its processes, practices and culture. The Strategy sets out a structured and coherent approach to risk management, tailored to how the County Council identifies, assesses, and manages risk.

24. Significant progress continues to be made towards delivering the Strategy aims and objectives, building on previous achievements of improved processes, continued development of the corporate risk management system, robust governance structures and the embedding of consistent approaches across the organisation.

25. Further progress has been made to align risks with the new organisation structure. This includes further development of the corporate risk management system, to enable the transfer of some corporate and directorate level risks to a different directorate, and ensuring new risk owners and risk control managers are assigned.

26. The RMSG is pivotal in driving forward the Risk Strategy, ensuring that it is communicated and visible to staff. This will continue to widen the general understanding of the County Council's approach to managing risk and guide staff on good practice approaches to adopt.

Risk Profile of the County Council

27. The key risk profile of the organisation is held in the Corporate Risk Management system, with each risk being managed by the respective directorate risk owners and control managers. The system includes an overarching Corporate Strategic Risk Register, and Directorate Risk Registers.

28. A summary of the Corporate Strategic Risk Register is set out in a separate and confidential appendix to this report (see Appendix C).

29. Earlier this year, the RMSG completed a review cycle of each corporate strategic risk. Following on from this, work has commenced to better define the accountability and responsibilities of risk owners and risk control managers for corporate strategic risks. This includes seeking assurance from other directorates on current or planned mitigation control measures where the risk (or part of) falls outside of the risk owner's directorate.

30. The Corporate Strategic Risk Register continues to be actively managed. It was agreed by CMT in April that a detailed strategic review of the register would be carried out to ensure key and pertinent risks remain current moving forward. This review has now been completed, the outcome from which has been a number of proposed changes being made to the Corporate Strategic Risk Register. We will continue to develop our approach to how we gain assurance of the effectiveness of controls identified for these risks.

31. Following the new organisational structure at the start of 2023, Directorate Risk Registers have been aligned accordingly. As part of this transition of risks, directorates have used this as an opportunity to review and consolidate (where appropriate) their risk registers. This has been particularly pertinent for newly formed directorates.

32. Both the corporate strategic risks and key directorate level risks continue to be actively managed and evaluated against the County Council's risk management assessment criteria, and are overseen by the respective DMT.

Risk Process and Approaches

33. The Corporate Risk Register System continues to be well embedded and used effectively across the organisation. It is a central system that holds key

directorate and corporate strategic risks, and provides up-to-date risk profiles across the County Council. The risks are evaluated against the corporate risk management framework and guidance, to ensure consistent approaches are applied.

34. Each risk has a named owner and control manager, who is accountable for ensuring risks and control measures are discussed and monitored appropriately. To ensure there is senior level accountability of corporate strategic risks, each one is owned by a Chief Officer.

35. With a built-in risk dashboard for directorates and reporting features, the system enables the transparency of key risks and giving them visibility at senior level. Each directorate undertakes regular reviews at DMT level, discussing key risks held on their Risk Register, and to consider any current or emerging risks.

36. The reporting from the system can be adapted to provide oversight on key areas of focus. This year, following a particular focus at CMT on any directorate level risks that have ‘limited’ mitigation control levels, the reporting was developed to highlight such risks. In addition, directorates were asked to scrutinise these risks, providing reasoning as to any ‘limited’ risks proposed as ‘tolerated’ rather than ‘treated’.

37. Periodic reviews of all risks are important as part of effective risk management. The Corporate Risk Register system prompts a review of each risk at either 1,3, or 6 months. This is to reflect emerging changes and ensure mitigation controls are monitored, and progress against implementation of new controls is assessed. All risks in the system are managed and reviewed by risk owners and risk control managers, with oversight from appropriate monitoring groups. This demonstrates that as an organisation we are actively and regularly looking at our key risks.

38. With key features in the system such as automated email reminders about risk reviews, secure access that is approved at SIRO level, recording risk scoring direction changes, this in-house system supports the framework for effective monitoring of key risks.

Continuous Improvement

39. The risk management framework and risk-aware culture has been strengthened in recent years, most notably through the creation of stronger governance and a corporate risk management system that gives greater visibility of key risks across the organisation. The Corporate Risk Register system plays a key part in contributing to an open and transparent risk culture, and it will continue to be iteratively developed as needed.

40. The risk arena is an ever changing and dynamic picture, and there continues to be a positive shift in our approach to identifying risks. This recognises the role that directorates play in bringing current and potential future risk challenges to the RMSG, and the three sub-groups who are also key to strengthening our identification and response to risks. This includes lessons learned and associated actions we take from our response to and preparedness for emergencies, other incidents (e.g., health and safety) and undertaking corporate-wide resilience exercises.

41. This year, the RMSG agreed to reduce the maximum review period for all risks in the corporate risk management system from 12 months down to 6 months. It was felt that this would provide greater reassurance that risks are monitored more regularly, particularly those with a high score. Future improvements to monitoring will include focus on progress against the implementation of further control measures for individual risks, where they have been identified in the system.

42. The RMSG also plans to look at key risk areas that would benefit from greater oversight and input by the group. This includes a closer focus on health and safety, information governance and resilience management, that will be informed by internal audits and reviews as appropriate.

43. The corporate SharePoint site is there for all staff to access information and guidance on risk management. This supports a risk aware culture and continues to be a useful resource for staff with learning, knowledge building and awareness of how to manage risks well. Governance and reporting structures are also defined in the guidance to help staff fully understand and adhere to management and reporting routes. The site continues to be updated as appropriate, to ensure that guidance and information remains current.

Consultation and Equalities

44. As this is a briefing paper with no changes recommended, consultation is not required.

45. As this is a briefing paper with no changes recommended, no impact has been identified to groups with protected characteristics.

Climate Change Impact Assessment

46. 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.

Climate Change Adaptation and Mitigation

47. The carbon mitigation tool and climate change adaptation tools were not applicable on this occasion because this paper relates to a programme that is strategic in nature, and no decisions are required.

Other Key Issues

48. There are no key issues to raise in this report.

Conclusion

49. In summary, the County Council’s key organisational and directorate strategic and operational risks are being actively identified and managed through robust mitigation control measures. The strong governance and reporting structures continue to support effective management of the organisation’s key risks and risk management progress. Over the last year, senior level engagement and visibility on corporate risk management has increased, to ensure key and pertinent risks to the County Council remain on the Corporate Strategic Risk Register.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
Corporate Risk Management	10 October 2023
Corporate Strategic Risk Register Annual Report (Confidential)	10 October 2023
Direct links to specific legislation or Government Directives	
Title	Date
None	

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:**

No specific EIA has been prepared for this briefing report as it is not a decision paper.

Appendix A – Hampshire County Council's Risk Management Strategy

Hampshire County Council's Risk Management Strategy 2022-2025

Introduction & Context

This strategy defines the approach Hampshire County Council ('the Council') has adopted to embedding risk management into the culture, policies and practices of the Council. The strategy, together with its underpinning guidance, aims to provide a clear and consistent approach to the management of risk across the organisation.

Overall Aim

To ensure a robust, proactive and effective culture of risk management accountability exists across the Council, as an integral part of the contribution frontline services make to the safety and wellbeing of Hampshire residents.

Objectives

To ensure:

1. Robust and clearly defined governance arrangements are in place to support delivery of the Risk Management Strategy at all levels of the organisation.
2. Roles, responsibilities and accountabilities are clearly defined, understood and administered.
3. Strategic risks are identified, documented, owned, managed, and regularly reviewed (including the identification of new and emerging risks), supported by an effective and intuitive risk management software solution.
4. An effective and regularly reviewed Corporate Risk Register is maintained, informed and supported by a comprehensive set of Directorate Risk Registers.
5. A proactive and collaborative approach is taken to managing cross-cutting risks.
6. Common language and reporting systems are used across Directorates at a strategic level, whilst enabling specific directorate approaches at a local level.
7. A strong culture of risk reporting is embedded in performance management.
8. Business continuity plans are in place and recorded for key strategic risks to maximise resilience across the Council.
9. Effective training and up-to-date guidance are in place to support and embed the Risk Management Strategy at all levels across the Council.

The Aim and Objectives will be Achieved By

1. Reviewing the Council's overall governance arrangements and reporting for risk management, including the role, membership, frequency and programme of the Risk Management Steering Group (RMSG).
2. Maintaining, reviewing, and monitoring effectiveness of the Risk Management system used across the organisation to manage risks at a departmental and corporate level.

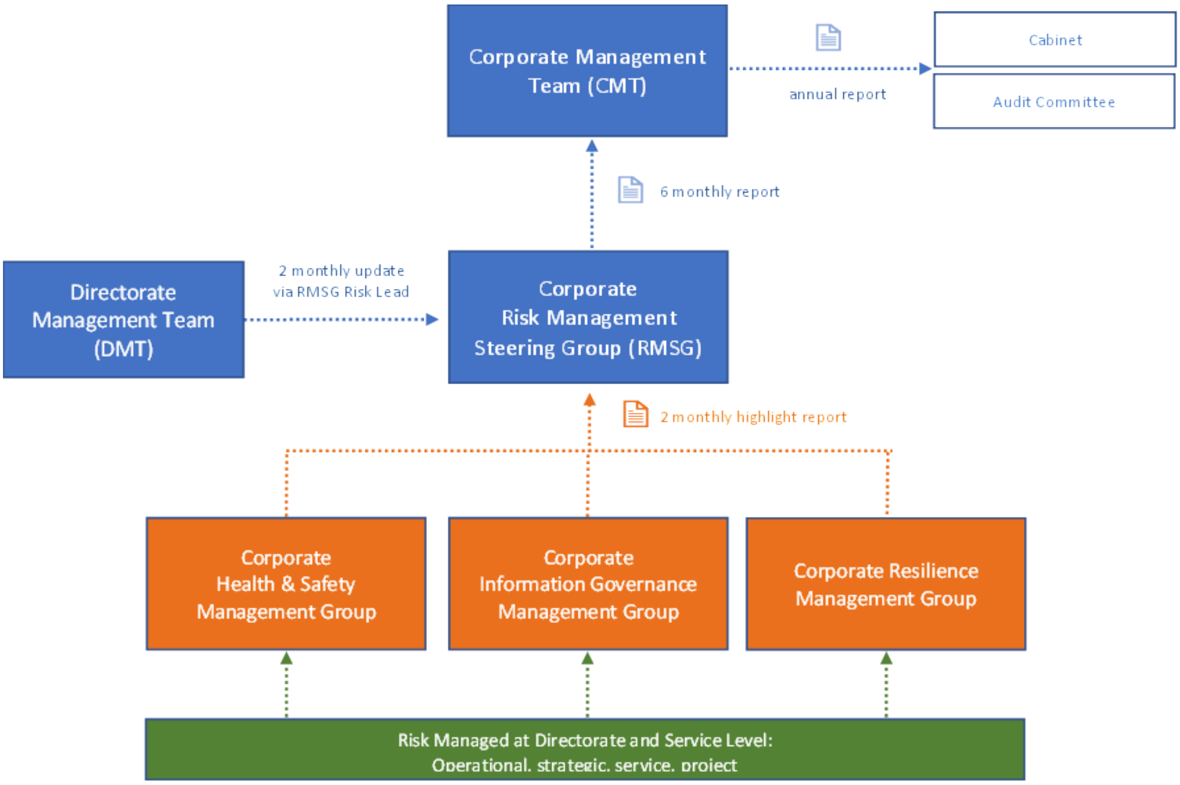
3. Revising, updating and effectively communicating, risk management guidance documents for managers and staff in one clearly accessible location.
4. Reviewing Directorate Risk Registers and the Corporate Risk Register appropriately, and consistently reporting against an agreed timetable.
5. Ensuring the corporate risk assurance and reporting processes are integrated with the corporate performance framework.
6. Developing an improved and fully accessible risk management training offer.
7. Undertaking appropriate reviews of individual risks on the Corporate Strategic Risk Register through the Risk Management Steering Group, to enable cross directorate consideration of control measures.
8. Improving the descriptions of control effectiveness levels to align with consistently recognised audit terminology.
9. Agreeing and implementing a risk training programme for managers, in addition to increasing general risk management awareness across the organisation.

Risk Management Guidance
To support the achievement of the Aim and Objectives outlined in this Risk Management Strategy, a revised suite of underpinning guidance documents is available on the Risk Management guidance site to assist managers and staff. The guidance includes, but is not limited to: roles and responsibilities; identifying risks; assessing controls and determining priorities (impact & likelihood); control effectiveness levels; identifying mitigation measures; providing assurance that risks are being well managed; benchmarking; risk appetite and tolerance; and the Council's risk management tools (both risk registers and reporting).

Approval of Strategy
This strategy will be reviewed and signed off by RMSG, for onward submission to CMT to endorse and recommend approval by Cabinet.

Date of endorsement by CMT: 27 April 2022
Date of approval by Cabinet: 18 October 2022
Date of next Strategy review & update by RMSG: **March 2025**

Appendix B – Hampshire County Council's Risk Management Governance and Reporting Framework



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