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NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Thursday, 14th December, 2017 at 2.00 pm
Place	Chute Room, EII South, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

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

FILMING AND BROADCAST NOTIFICATION

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

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence received.

2. DECLARATIONS OF INTEREST

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

3. MINUTES OF PREVIOUS MEETING (Pages 5 - 8)

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 9 - 10)

To receive a presentation on how the County Council has used its regulated investigatory powers during the 2nd quarter of 2017/18.

7. INTERNAL AUDIT PROGRESS REPORT - DECEMBER 2017 (Pages 11 - 36)

To consider a report of the Director of Corporate Resources – Corporate Services which gives an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

8. TREASURY MANAGEMENT MONITORING REPORT 2017/18 (Pages 37 - 52)

To consider a report of the Director of Corporate Resources – Corporate Services on the mid-year review of treasury management activities.

9. ANNUAL AUDIT LETTER FOR 2016/17 (Pages 53 - 72)

To receive the Annual Audit Letter for 2016/17 from the external auditors for Hampshire County Council and Hampshire Pension Fund.

10. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETINGS (LESS EXEMPT) (Pages 73 - 82)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meetings held on 7 July, 29 September and 13 October 2017.

11. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the public be excluded from the meeting during the following item of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during this item there would be disclosure to them of exempt information within Paragraphs 1, 2, 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the cases, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the exempt minutes.

12. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETINGS (EXEMPT) (Pages 83 - 88)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meetings held on 7 July, 29 September and 13 October 2017.

ABOUT THIS AGENDA:

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

ABOUT THIS MEETING:

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

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

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Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at the castle, Winchester on Thursday, 28th September, 2017

Chairman:

* Councillor Keith Evans

* Councillor Alexis McEvoy
* Councillor Adrian Collett
* Councillor Dominic Hiscock
* Councillor Mark Kemp-Gee
* Councillor Derek Mellor

Councillor Floss Mitchell
* Councillor Rob Mocatta
* Councillor Tom Thacker
* Councillor Lance Quantrill
Councillor Bruce Tennent

*Present

19. APOLOGIES FOR ABSENCE

Apologies were received from Cllr Mitchell. Cllr Quantrill was in attendance as a deputy.

20. DECLARATIONS OF INTEREST

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

21. MINUTES OF PREVIOUS MEETING

The minutes of the last meeting were reviewed and agreed

22. DEPUTATIONS

There were no deputations.

23. CHAIRMAN'S ANNOUNCEMENTS

There were no Chairman's Announcements.

24. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS

Committee received a report from the Head of Risk and Information Management (Item 6 in the Minute Book), which detailed how the County Council has used its regulated investigatory powers during the 1st quarter of 2017/18. Members questioned whether investigatory powers were being used enough, or whether the County was over cautious, but it was felt that a good balance had been met and powers were being used appropriately.

RESOLVED:

The report was received and approved by Committee

25. COMPLAINTS REPORT

The Committee received a report from the Head of Risk and Information Governance, which outlined an overview of customer complaints for the year 2016/17 across the County Council.

It was explained that this was a new reporting method that would continue to go to Committee for review. Feedback was usually done via a central online form, which was very accessible to the public, but statistics were kept in various ways across departments and the current data was in the process of being analysed in more detail.

It was anticipated that more complex complaints would be able to be dealt with more effectively going forward. It was noted that Environment and Transport received 50% of all complaints, but this was going to be highways related.

It was noted in paragraph 3.4 of the report that the aim was to solve most complaints at the first stage. Committee wondered whether this meant that it was harder to find trends, however, it was agreed that it was better that less officer time was taken up on complaints that could be easily resolved and more complex issues left to go onto Stages 2 and 3.

RESOLVED:

The Audit Committee noted the contents of the report.

26. INTERNAL AUDIT PROGRESS REPORT - SEPTEMBER 2017

The Committee received a report from the Director of Corporate Resources – Corporate Services (item 8 in the Minute Book) which provided an overview of internal audit activity again assurance work completed in accordance with the approved audit plan and ‘live’ reports.

It was noted that there was one overdue action in relation to the Insurance Fund (page 32). It was explained that clearance of this action was reliant on a report to Cabinet in December 17 following feedback from a recent actuarial review. The progress report would continue to monitor progress.

RESOLVED:

The Audit Committee noted the Internal Audit Progress report for the period to September 2017.

27. HAMPSHIRE COUNTY COUNCIL AUDIT RESULTS REPORT 2016-17

The Committee received the External Audit Results report (Item 9 in the Minute Book) and Maria Grindley and Adam Swain from Ernst & Young were welcomed to the meeting.

It was confirmed that a wash-up meeting undertaken following the audit had gone very well and there were no concerns over Hampshire County Council meeting the July deadline in future years.

Committee asked whether analytics tools could be used for benchmarking against other organisations going forward and it was confirmed that they could be used for this and finding trends, as well as disparities.

There had been no significant findings this year and the only significant potential risk, being management override had no issues found.

Committee welcomed the strong audit report and thanked officers for their hard work and working so efficiently.

RESOLVED

The Audit Committee received the Audit Results Report 2016-17

28. HAMPSHIRE PENSION FUND AUDIT RESULTS REPORT 2016-17

The Committee received the Hampshire Pension Fund External Audit Results report (Item 10 in the Minute Book), which was presented by Marie Grindley and Adam Swain from Ernst & Young.

There had been no significant findings this year and an unqualified opinion had been issued.

Committee welcomed the audit report and thanked officers for their hard work and working so efficiently.

RESOLVED:

The Audit Committee received the Pension Fund Audit Results Report 2016-17.

29. STATEMENT OF ACCOUNTS 2016/17

Committee received a report from the Director of Corporate Resources (Item 11 in the Minute Book) regarding the Statement of Accounts for 2016/17.

Members had been briefed on the report, and it was confirmed that insurance related aspects in the report would be looked at in further detail at a future meeting.

RESOLVED:

- a) The Statement of Accounts for 2016/17 were approved
- b) The letters of representation for Hampshire County Council and the Hampshire Pension Fund were signed
- c) It was agreed that delegate authority would be given to the Director of Corporate Resources to approve any minor amendments to the Statement of Accounts prior to the issue of the final audit opinion and publication of the Statement of Accounts.
- d) The Audit Committee noted the change in the statutory accounts timetable from the 2017/18 financial year and the requirement to approve the Statement of Accounts by the earlier date of 31 July each year.
- e) A report would come to a future Committee meeting, which would detail the approaches to self insurance and general liabilities cover.

30. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETINGS (NON-EXEMPT)

The Minutes from the Pension Fund Panel and Board were approved.

31. EXCLUSION OF THE PRESS AND PUBLIC

To resolve that the public be excluded from the meeting during the following item of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during this item there would be disclosure to them of exempt information within Paragraph 1 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 outweighs the public interest in disclosing the information, for the reasons set out in the report.

32. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETINGS (EXEMPT)

The exempt Minutes of the Pension Fund Panel and Board meeting were approved.

Chairman,

Quarterly Reporting of Surveillance

Number of Authorisations by Quarter (1 April 2017 – 31 March 2018)

Direct Surveillance			
	Purpose of Surveillance		
2017-18 Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3			
4			
Total -	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		
Communications Data			
Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	0	0	N/A
2	0	0	N/A
3			
4			
Total -	0		

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	14 December 2017
Title:	Internal Audit Progress Report (December 2017)
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Neil Pitman

Tel: 01962 845139

Email: Neil.pitman@hants.gov.uk

1. Recommendation

1.1. That the Audit Committee notes the Internal Audit Progress report for the period to December 2017 as attached.

2. Executive Summary

2.1. The purpose of this paper is to provide the Audit Committee with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

2. Contextual information

2.1. Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

2.2. In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;

- a summary of internal audit performance, planning and resourcing issues; and
- a summary a significant issues that impact on the Chief Internal Auditor's annual opinion

2.3. Appendix 1 summarises the activities of internal audit for the period up to December 2017.

CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:	
‘Board’ approval of the Internal Audit Plan, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards	

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Internal Audit Charter	22 June 2017
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

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

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

IMPACT ASSESSMENTS:

1. Equality Duty

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

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

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

1.2. Equalities Impact Assessment:

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

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime, however internal audit work is planned to ensure that controls are in place to minimise the risk of fraud and corruption against the County Council

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption? *No specific changes.*
- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? *No specific proposals affecting adaptation to climate change.*

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Internal Audit Progress Report

December 2017

Hampshire County Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents:

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards – updated 2017 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Purpose of report

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

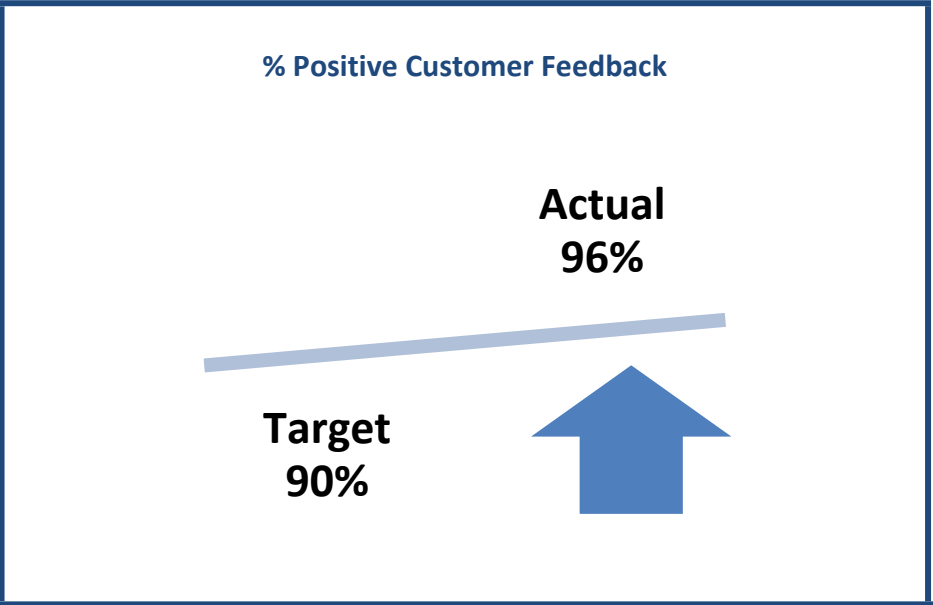
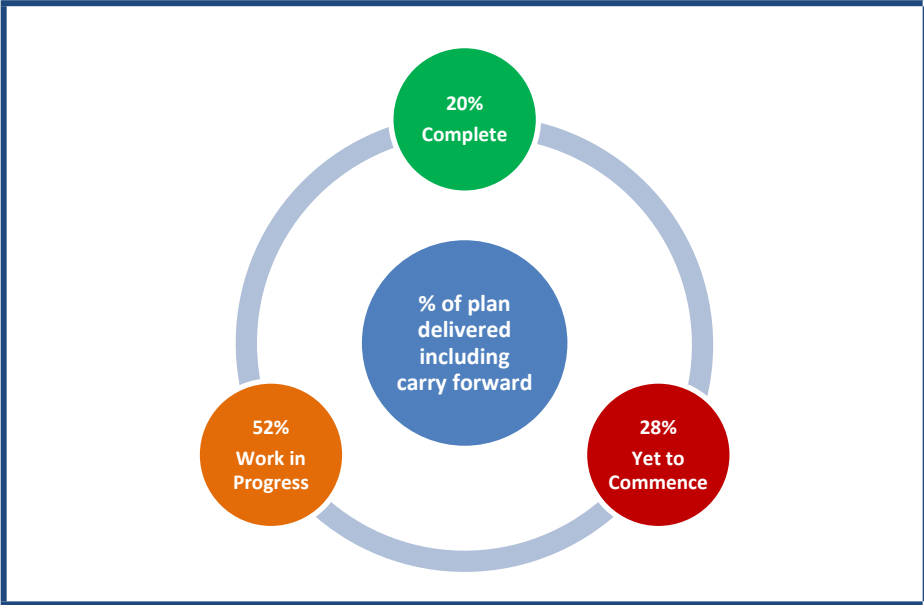
- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

Substantial	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified.
Adequate	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Limited	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
No	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.

3. Performance dashboard - update

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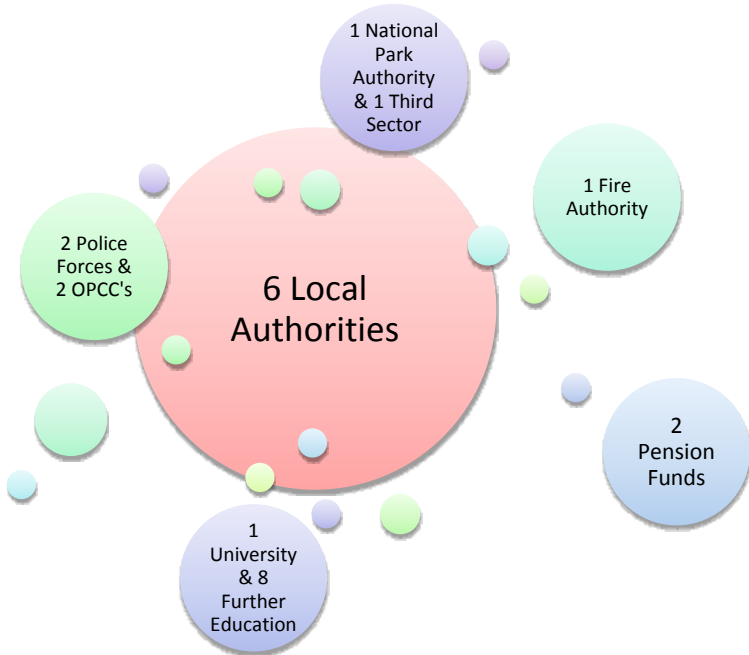
Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
	<p>An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:</p> <p><i>'It is our view that the Southern Internal Audit Partnership 'generally conforms' (top grading) to all of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).</i></p>

4. Partnership Update

The Southern Internal Audit Partnership (SIAP) was established by Hampshire County Council in 2012. The Partnership brings together the professional discipline of internal audit across partnering organisations enabling a pooling of expertise and the delivery of a flexible, responsive, resilient and cost effective service for all participating organisations.

As the SIAP’s reputation grows there has been increased interest from a number of public sector bodies in joining the Partnership and benefiting from the collaborative approach we have adopted.

I am pleased to be able to confirm that West Sussex County Council and New Forest District Council will be joining the SIAP in April 2018 increasing our partner / client portfolio to 24 organisations:



5. Status of 'Live' Reports

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Property strategic partners	17.02.16	CCBS	Adequate	1(0)	0(0)	1(0)	0(0)	0(0)
Payroll	13.06.16	CR	Adequate	8(0)	0(0)	0(0)	7(0)	1(0)
Insurance Fund	19.10.16	T&G	Adequate	1(1)	0(0)	0(0)	0(0)	1(1)
Sold Services (Trading Standards)	25.10.16	CCBS	Adequate	5(0)	0(0)	1(0)	4(0)	0(0)
LD - Phase 2 of Transition To New Providers	02.11.16	CR	Limited	5(5)	0(0)	1(1)	4(4)	0(0)
IBC/Shared Service Debt Collection	29.11.16	CR	Limited	9(6)	0(0)	0(0)	7(6)	2(0)
Occupational Therapists	01.12.16	AH&C	Adequate	6 (2)	0 (0)	0(0)	5(2)	1(0)
Section 38 Road Making Agreements	20.12.16	ETE	Limited	14(3)	0(0)	0(0)	13(3)	1(0)
Virtualisation Security and Licensing	22.12.16	CR	Adequate	9(0)	0(0)	1(0)	8(0)	0(0)
Contract management – building cleaning	01.02.17	CCBS	Adequate	14(3)	0(0)	2(0)	10(3)	2(0)
Grants Granted	23.02.17	CS	Limited	10(7)	0(0)	3(0)	7(7)	0(0)
Electronic Care Monitoring (ECM)	21.03.17	AH&C	Limited	12(10)	0(0)	4(3)	7(6)	1(1)
Shared Services Payroll	23.03.17	CR	Substantial	1(0)	0(0)	0(0)	0(0)	1(0)
IBC Order to Cash	27.03.17	CR	Adequate	5(4)	0(0)	0(0)	4(4)	1(0)
IBC Purchase to Pay	28.03.17	CR	Adequate	3(1)	0(0)	1(0)	2(1)	0(0)
Linden Education Centre	13.04.17	CS	Limited	38(30)	0(0)	1(0)	36(30)	1(0)

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Contract management - Intelligent Transport System	18.04.17	ETE	Adequate	7(2)	0(0)	1(0)	6(2)	0(0)
Hatherden Primary School	24.04.17	CS	Limited	13(10)	0(0)	0(0)	12(9)	1(1)
Medicine Control LD/PD Units	09.05.17	AS	Limited	16(14)	0(0)	1(0)	13(12)	2(2)
Health and safety	11.5.17	T&G	Adequate	3(0)	0(0)	3(0)	0(0)	0(0)
Services for Young Children	15.05.17	CS	Adequate	2(0)	0(0)	2(0)	0(0)	0(0)
Discharge to Assess Beds	16.05.17	AH&C	Adequate	2(1)	0(0)	0(0)	1(1)	1(0)
Concessionary Fares	17.05.17	ETE	Adequate	6(0)	0(0)	2(0)	4(0)	0(0)
PLO and court processes	18.05.17	CS	Limited	16(0)	0(0)	1(0)	15(0)	0(0)
IT Business Continuity and DR	12.06.17	CR	Adequate	5(1)	0(0)	4(1)	1(0)	0(0)
Dorset Data Centre Security	20.06.17	CR	Limited	15(8)	0(0)	1(1)	13(7)	1(0)
Employer pension responsibilities	22.06.17	CR	Adequate	6(1)	0(0)	4(1)	2(0)	0(0)
Remote Working Solutions	26.06.17	CR	Adequate	15(3)	0(0)	3(2)	12(1)	0(0)
Public Service Network	05.07.17	CR	Adequate	2(0)	0(0)	1(0)	1(0)	0(0)
Multi Agency Safeguarding Hub (MASH)	10.07.17	AH&C	Adequate	8(2)	0(0)	0(0)	5(2)	3(0)
Implementation of the Care Act	17.07.17	AH&C	Limited	10(8)	0(0)	2(1)	8(7)	0(0)
Transformation	19.07.17	T&G	Adequate	4(0)	0(0)	3(0)	1(0)	0(0)

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Extra Care Housing	18.07.17	AH&C	Adequate	6(6)	0(0)	1(1)	5(5)	0(0)
Property Management	25.07.17	CCBS	Adequate	1(0)	0(0)	1(0)	0(0)	0(0)
Hampshire Health Record	26.07.17	AH&C	Limited	10(1)	0(0)	5(1)	0(0)	5(0)
Thematic Review - Procurement within Outdoor Centres	04.08.17	CCBS	Adequate	17(2)	0(0)	10(0)	7(2)	0(0)
Care at Home	04.08.17	AH&C	Limited	5(3)	0(0)	3(1)	2(2)	0(0)
Hampshire Music Service (income collection)	14.08.17	CS	Adequate	1(1)	0(0)	1(1)	0(0)	0(0)
Provision of substance misuse	17.08.17	AH&C	Adequate	3(0)	0(0)	0(0)	1(0)	2(0)
Use of Agency Staff	22.08.17	CS	Adequate	9(0)	0(0)	1(0)	8(0)	0(0)
Education for children looked after	25.08.17	CS	Adequate	7(2)	0(0)	5(1)	2(1)	0(0)
Health and Care Complaints Team	07.09.17	AH&C	Adequate	9(2)	0(0)	4(1)	0(0)	5(1)
Information Management Steering Group	12.09.17	AH&C	Adequate	3(1)	0(0)	2(1)	1(0)	0(0)
School Thematic – SEN and special advisory teachers	14.09.17	CS	Adequate	12(7)	0(0)	10(5)	0(0)	2(2)
Respite for LD and PD	28.09.17	AH&C	Adequate	6(5)	0(0)	6(5)	0(0)	0(0)
Medicine Control in OP Units	28.09.17	AH&C	Adequate	9(5)	0(0)	6(3)	3(2)	0(0)

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Community Involvement and Activities	28.09.17	AH&C	Adequate	3(2)	0(0)	1(0)	2(2)	0(0)
Education Centres	11.10.17	CS	Adequate	6(0)	0(0)	5(0)	1(0)	0(0)
Business Applications – Capita One	17.10.17	CR	Adequate	4(2)	0(0)	1(0)	3(2)	0(0)
Contract management – GEN contracts	03.11.17	ETE	Adequate	1(0)	0(0)	1(0)	0(0)	0(0)
Elective Home Education (EHE)	07.11.17	CS	Adequate	8(2)	0(0)	7(1)	1(1)	0(0)
School thematic review – Attendance for children in care	09.11.17	CS	Adequate	10(6)	0(0)	10(6)	0(0)	0(0)

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

None

7. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2015 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2015	01.04.17 – 31.10.17
Part 2 Requirements - Fraud	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	4 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	78 days
Total number of fraud cases investigated	9

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse* - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'

8. Planning & Resourcing

The internal audit plan for 2017/18 was approved by the Council's Management Team and the Audit Committee in June 2017.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 8

9. Rolling Work Programme

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Respite for learning disability / physical disability	AS	✓	✓	✓	✓	28/09/17	Adequate		
Governance of pre-contract approvals	CCBS	✓	✓	✓	✓			✗	Dr 05/09/17
Traded services (and shared outside Shared Services)	CCBS	✓	✓					✓	
Equality impact assessments	T&G	✓	✓					✓	
Information management	T&G	✓	✓	✓	✓			✗	Dr 13/09/17
GDPR	T&G	✓							
Business continuity / emergency planning	T&G	✓	✓	✓				✓	
Records management	T&G	✓	✓	✓	✓			✗	Dr 03/10/17
Health and safety	T&G								

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Capital programme	Various								
Hantsdirect – CART model	Assistant Chief Exec	✓	✓					✓	
Hantsdirect – service standards	Assistant Chief Exec	✓	✓					✓	
Information security	CR								
Local management of shared services	CR	✓	✓	✓	✓			✗	Dr 31/08/17
Social media policy	Assistant Chief Exec								
Marketing	Assistant Chief Exec								
Use of volunteers	Assistant Chief Exec	✓	✓	✓				✓	
Risk management	T&G	✓	✓					✓	
Corporate governance framework	T&G	✓	✓	✓				✓	
Complaints and compliments	T&G	✓	✓	✓	✓			✗	Dr 25/09/17
Annual governance statement	T&G								
Annual self assessment against internal audit Standards	CIA								

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Assurance mapping	CIA	n/a	n/a	✓				✓	
Financial assessments and benefits	AH&C	✓	✓	✓				✓	
Premis	CR / CCBS	✓	✓	✓				✓	
IT change management	CR	✓	✓	✓				✓	
Network management and monitoring	CR								
SAP operational basis support	CR	✓						✓	
Platform monitoring (Windows & Linux)	CR	✓	✓	✓				✓	
Database management & security	CR	✓	✓	✓	✓			✓	
Assurance mapping - IT	CR								
Identity management	CR								
PCI compliance testing	CR	✓	n/a	✓	n/a	Testing complete	n/a	✓	
Business applications	CR	✓	✓	✓	✓	17/10/17	Adequate	✓	
ISO27001	CR	✓	n/a	✓	n/a			✓	
Safeguarding - Children	CS								
Safeguarding - other departments	CS								
School / CCBS thematic review - cash and assets security	CS / CCBS								

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
School thematic review - Attendance for Children in Care	CS	✓	✓	✓	✓	09/11/17	Adequate	✓	
School thematic review - Recruitment	CS	✓	✓	✓	✓			✓	
School thematic review – Offsite activities	CS	✓	✓	✓				✓	
Woodlands Education Centre	CS	✓	✓	✓	✓			✗	Dr 25/07/17
Swanwick Lodge	CS								
SFVS	CS	n/a	n/a	✓				✓	
Home to school transport	CS / ETE								
Care Leavers	CS								
Direct payments (CS)	CS	✓	✓	✓				✓	
Unaccompanied Asylum seekers	CS								
Music Service (income collection)	CS	✓	✓	✓	✓	14/08/17	Adequate	✓	
Education Centres	CS	✓	✓	✓	✓	11/10/17	Adequate	✓	
Troubled families - claims	CS	n/a	n/a	✓				✓	
Special Guardianship Orders (SGO's)	CS	✓	✓	✓	✓			✓	
Use of Agency Staff	CS	✓	✓	✓	✓	22/08/17	Adequate	✓	
Transition of children to Adults Health and Care	CS / AH&C	✓	✓	✓				✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Elective Home Education (EHE)	CS	✓	✓	✓	✓	07/11/17	Adequate	✓	
Adult services establishments - Medicine control in residential/nursing homes (OP)	AH&C	✓	✓	✓	✓	28/09/17	Adequate	✓	
Adult services establishments - Support Plans	AH&C	✓	✓	✓	✓	28/09/17	Adequate	✓	
Adult services establishments - Community involvement / activities	AH&C	✓	✓	✓	✓	28/09/17	Adequate	✓	
Personalisation - self directed support	AH&C	✓	✓	✓				✓	
Integrated Reablement (CRT react, Sensory and Occupational Therapists combined)	AH&C								
Continuing healthcare	AH&C	✓	✓	✓				✓	
Large scale investigations	AH&C								
Electronic Care Monitoring System (ECM), telehealth – home care monitoring	AH&C								
Telecare	AH&C	✓	✓	✓	✓			✓	Dr 25/10/17
Out of County Placements	AH&C	✓	✓	✓				✓	
Data Quality on AIS	AH&C	✓						✓	
Regulation 17 visits	AH&C	✓	✓	✓	✓	15/09/17		✗	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Adults, Health and Care Complaints Team	AH&C	✓	✓	✓	✓	07/09/17	Adequate	✓	
Health and Safety (AH&C)	AH&C	✓	✓	✓	✓			✓	Dr 30/10/17
Information Management Steering Group	AH&C	✓	✓	✓	✓	12/09/17	Adequate	✓	
Disability Related Expenses	AH&C	✓	✓	✓				✓	
Public Health - Quality and Performance Group	AH&C								
Economic Development and Business Engagement	ETE								
ETE Incentive bid self assessment	ETE	✓	n/a	✓	n/a	Complete		✓	Advice
Use of developer contributions	ETE	✓	✓	✓				✓	
CCBS establishment thematic review – Registration Services income collection	CCBS	✓	✓	✓	✓			✓	Dr 30/10/17
District working arrangements (Environmental Services)	ETE	✓						✓	
S38 - Road Making Agreements	ETE	✓						✓	
Grant funding for capital schemes	ETE	✓	✓	✓	✓			✓	Dr 30/10/17
Major Scheme Programme development	ETE	✓	✓					✓	
Business units – County Supplies	CCBS	✓	✓	✓	✓			✓	Dr 17/10/17

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Procurement - strategy and governance	T&G								
Contract management - corporate 1	Various	✓	✓	✓				✓	
Procurement - Independent Fostering Agencies	CS								
Contract m'gt - Waste Disposal	ETE								
Contract management - Matrix	T&G	✓	✓	✓				✓	
Contract management - modular framework	CCBS								
Contract management – GEN contracts	ETE	✓	✓	✓	✓	03/11/17	Adequate	✓	
Mobilisation of HHSC	ETE	✓	✓	✓				✓	
De-Mobilisation of Term Highways contract	ETE	✓	✓	✓				✓	
Highways - HHSC governance	ETE	✓	✓	✓	✓			✓	Draft report issued 14/11/17
Term maintenance Contract	CCBS								
Minor Works Framework	CCBS								
Reading / Hampshire Property Partnership	CCBS	✓	✓	✓	n/a	Complete	n/a	✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Grant certification - HCC Local Transport Capital Block Funding (including pot hole funding)	ETE	n/a	n/a	✓	n/a	Grant certified	n/a	✓	
Grant certification - HCC Local Authority Bus Subsidy grant	ETE	n/a	n/a	✓	n/a	Grant certified	n/a	✓	
Grant certification - Disabled Facilities Grant 2016/17	AH&C	n/a	n/a	✓	n/a	Grant certified	n/a	✓	
Grant certification - Disabled Facilities Grant 2017/18									
Grant certification - Local Growth Fund (LEP)	ETE	n/a	n/a	✓	n/a	Grant certified	n/a	✓	
Grant certification - Bus Rapid Transit	ETE								
Shared Services 17/18 Plan									
Payroll	CR	✓	✓	✓				✓	
Payroll support	CR	✓	✓	✓	✓			✓	
Order to Cash (OTC)	CR	✓	✓	✓				✓	
Purchase to pay (P2P)	CR	✓	✓	✓				✓	
Treasury Management	CR	✓	✓	✓	✓	10/10/17	Substantial	✓	
Debt Collection	CR	✓	✓	✓				✓	
BACS	CR	✓	✓	✓	✓	15/08/17	Adequate	✓	
Governance arrangements	CR	✓	✓					✓	

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Field work	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Statutory Checks	CR	✓	✓	✓				✓	
Recruitment	CR	✓	✓	✓				✓	
Category Management	CR	✓	✓	✓				✓	
Contract Management	CR								

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the County Council. Below are the variations made to the original 2017/18 audit plan approved by the Audit Committee in June 2017.

Plan Variations – schools not listed as variations as time was in originally	
Removed from the plan	Reason
Change Control (Shared Services)	Recent payroll configuration consultancy work has covered change control adequately, and the audit is not needed this year
Contract management - IT	IT management are currently reviewing this area
Shared Services – main accounting system (SAP)	No longer required – assurance gained from other reviews and separate review not required by external audit.
Economic Development - Development of Business / Investment Property Portfolio	Project has not progressed as planned.
Additions to the plan	Reason
Woodlands Education Centre	Requested by management / HIAS
Education Centres	Request for review following 2016/17 overspend
Consultancy - OCC payroll corrections	Requested by management
GDPR	Review of readiness for the changes which come into effect in May 2018

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	14 December 2017
Title:	Treasury Management Monitoring Report 2017/18
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Gemma Farley

Tel: 01962 847540

Email: Gemma.farley@hants.gov.uk

1. Recommendations

- 1.1. That the mid-year review of treasury management activities be noted.
- 1.2. That the potential impact on the investment strategy of defaulting to a retail client with effect from 3rd January 2018 be noted.
- 1.3. That the Audit Committee notes the following recommendations agreed by County Council:
- 1.4. That the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy be agreed.
- 1.5. In electing for professional client status County Council acknowledges and agrees to forgo the protections available to retail clients attached at Appendix 1.
- 1.6. That County Council approves delegated responsibility to the Section 151 Officer for the purposes of completing the applications.

2. Purpose

- 2.1. The Treasury Management Strategy for 2017/18 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
- 2.2. The Code also recommends that members are informed of Treasury Management activities at least twice a year (a mid year and a year end report). This report therefore ensures that the County Council is embracing best practice in accordance with CIPFA's recommendations.
- 2.3. Treasury Management is defined as: "the management of investments and cash flows, 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”.

3. Economic Background

- 3.1. The following section outlines the key economic themes currently in the UK against which investment and borrowing decisions have been made in the year to date.

External Context

- 3.2. UK Consumer Price Inflation (CPIH) for the year to August 2017 was 2.7%, up from 2.6% in July 2017; the largest upward contributions came from housing and household services (mainly from owner occupiers’ housing costs and, to a lesser extent, from electricity prices and Council Tax), and clothing and footwear (the rise in inflation in this category may reflect changes in the exchange rate in impacting on the cost of imported clothing). The most recent labour market data for July 2017 showed that the unemployment rate dropped to 4.3% (its lowest since the three months to May in 1975) but the squeeze on real wages (i.e. after inflation) is intensifying and resulting in negative real wage growth. Quarter 1 GDP data released in April and revised in May and June showed economic activity growing at a much slower pace of 0.2%, and the estimates of Quarter 2 GDP data released in July and August showed the economy growing at a rate of 0.3% over the quarter. The Bank of England made no change to Bank Rate or its Quantitative Easing policy (QE) at its meeting on 14 September 2017.
- 3.3. Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty and in the hope of gaining an enhanced mandate to enter the forthcoming Brexit negotiations. The surprise result has led to a minority Conservative government in a confidence and supply arrangement with the Democratic Unionist Party. This political impasse clearly results in an enhanced level of political uncertainty, however the potential for a so-called hard Brexit is now diminished, reducing the associated economic headwinds for the UK economy from a ‘no deal’ or otherwise unfavourable trade agreement.
- 3.4. The reaction from the markets on the election’s outcome has been fairly muted; business confidence now hinges on the progress of Brexit negotiations, whether new trade treaties and arrangements are successfully concluded and whether or not the UK continues to remain part of the EU customs union post the country’s exit from the EU.
- 3.5. In the face of this uncertainty, the County Council’s treasury management advisor, Arlingclose, expects the Bank of England will look through periods of high inflation and maintain its low-for-longer stance on policy interest rates for an extended period.

Financial markets

- 3.6. Gilt yields displayed some volatility with a marked uptick in late June. This was largely due to the expectation of tapering of QE in the US and Europe, which also had an impact on gilts. The FTSE 100 reached a record high of

7548 in May but dropped off slightly towards the end of Quarter 1, and down to 7438 on 31 August. However this level is still considered high in comparison to recent trends.

Credit background

- 3.7. UK bank credit default swaps have continued their downward trend, reaching three year lows by the end of June. Bank share prices have not moved in any particular pattern.
- 3.8. Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. The County Council will work with Arlingclose to manage this situation as greater clarity is provided over the following months.

4. Investment Activity

- 4.1. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. The County Council is currently investing according to a low risk, high quality lending list as outlined in its Treasury Management Strategy.
- 4.2. The transposition of European Union directives into UK legislation places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits. (The outcome of the EU referendum does not alter the UK's legislated bail-in resolution regime.)
- 4.3. Given the increasing risk and continued low returns from short-term unsecured bank investments, it is the County Council's aim to further diversify into more secure and/or higher yielding asset classes. The majority of the County Council's surplus cash was previously invested in short-term unsecured bank deposits, certificates of deposit and money market funds.

The County Council's investment holding was £587m at 31 August 2017, which was £16m (2.8%) greater than the same time last year. The table below shows investment activity for the County Council as at 31 August 2017 in comparison to the reported investment activity as at 31 March 2017:

Table 1: Investment Activity in 2017/18

Investments	Asset value on 31/03/2017 £m	Asset value on 31/08/2017 £m	Average Rate/Yield on 31/08/2017 %	Average Life on 31/08/2017 years
Short term Investments				
Banks and Building Societies:				
Unsecured	35.7	60.2	0.41	0.18
Secured	20.0	50.0	0.77	0.50
Money Market Funds	61.7	23.5	0.22	0.00
Local Authorities	116.8	160.8	1.07	0.59
Corporate Bonds	1.3	-	-	-
Registered Provider	-	20.0	1.79	0.41

	235.5	314.5	0.87	0.44
Long term Investments				
Banks and Building Societies:				
Secured	70.0	100.8	0.59	2.34
Local Authorities	97.5	51.5	2.15	1.62
	167.5	152.3	1.12	2.10
Long term Investments – high yielding strategy				
Local Authorities				
Fixed deposits	20.0	20.0	3.96	16.55
Fixed bonds	10.0	10.0	3.78	16.36
Pooled Funds				
Pooled property*	45.0	55.0	4.10	n/a
Pooled equity*	20.0	20.0	6.45	n/a
Pooled multi-asset*	10.0	10.0	4.52	n/a
Registered Provider	5.0	5.0	3.40	1.66
	110.0	120.0	4.45	14.37
TOTAL INVESTMENTS	513.0	586.8	1.67	1.92
Increase/ (Decrease) in Investments £m		73.8		

* Yield represents the average of each investment class' most recent dividend payments as a percentage of the asset value.

- 4.4. Cash balances in August are always greater than in March due to many government grants being front-loaded, and so March is generally the cash low point of the year. During the five-month period, the value of County Council cash liable to bank bail-in risk (unsecured bank investments and funds invested in money market funds) has been reduced, whilst the proportion of funds in high-yielding investments has increased. These movements have increased the diversification of the investment portfolio, reduced bail-in risk, and increased the average yield at 31 August 2017.
- 4.5. As part of the 2017/18 Investment Strategy the total amount targeted towards high yielding investments was increased to £200m. Investments yielding higher returns will contribute additional income to the County Council, although some come with the risk that they may suffer falls in the value of the principal invested.
- 4.6. Of the £200m available £120m has been invested (an increase of £10m since 31 March 2017), and a further £40m is committed to pooled property, equity and multi-asset funds. The investments in these pooled funds allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds, which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the County Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.

- 4.7. Although money can be redeemed from the pooled funds at short notice, the County Council's intention is to hold them for at least the medium-term. Their performance and suitability in meeting the County Council's investment objectives are monitored regularly and discussed with Arlingclose.

Table 2: Pooled fund investments capital value at 31 August 2017

Pooled fund investments	Principal invested £m	Market value 31/08/17 £m	Capital yield (per annum) %
Pooled property	55.0	55.0	0.17
Pooled equity	20.0	21.6	7.95
Pooled multi-asset	10.0	10.0	-0.02
Total	85.00	86.6	6.57

- 4.8. Counterparty credit quality was assessed and monitored with reference to credit ratings (the County Council's minimum long-term counterparty rating for institutions defined as having "high credit quality" is BBB+ across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 4.9. The average cash balances were £610m during the year to 31 August 2017. The average interest rate earned on the County Council's investments at 31 August 2017 was 1.67%, which should be considered within the context of a low UK Base Rate of 0.25%, and very low short-term money market rates.
- 4.10. The Guidance on Local Government Investments in England gives priority to security and liquidity and the County Council's aim is to achieve a yield commensurate with these principles. This has been maintained by following the County Council's counterparty policy as set out in its Treasury Management Strategy for 2017/18.

5. Borrowing

- 5.1. The County Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31 March 2017 was £755m. Affordability and the "cost of carry" remained important influences on the County Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.
- 5.2. For the County Council the use of internal resources in lieu of borrowing has, therefore, continued to be the most cost effective means of funding capital expenditure. No new long-term borrowing has taken place to date in 2017/18, or is planned for the remainder of the year. This has lowered overall treasury risk by reducing both external debt and temporary investments.
- 5.3. As at 31 August 2017 the County Council held £296m of loans, (a decrease of £37m on 31/03/2017), made up of Public Works Loans Board (PWL) Board

loans and market loans (including Lender's Option Borrower's Option (LOBO) loans), as part of its strategy for funding previous years' capital programmes.

- 5.4. The premia that applies to the premature repayment of the County Council's PWLB loans is still relatively expensive for the loans in the portfolio, and therefore unattractive for debt rescheduling. As a consequence, no PWLB debt rescheduling has taken place. However, consideration will continue to be given to an advantageous opportunity for the County Council to reduce or restructure its debt portfolio.
- 5.5. The County Council holds £20m of LOBO loans (down from the £73m historical balance, as explained in paragraphs 5.6 - 5.8) 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.
- 5.6. In June 2016 Barclays Bank informed the County Council of its decision to cancel all the embedded options within standard LOBO loans. This effectively converted £13m of the County Council's Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date. This waiver was done by 'deed poll'; it is irreversible and transferable by Barclays to any new lender.
- 5.7. In July 2017, the County Council negotiated the repayment of £32m of LOBO loans, and repaid these at a saving in comparison to the total cost expected over the loans' lifetime.
- 5.8. In August 2017 the Royal Bank of Scotland also informed the County Council of its decision to cancel all the embedded options within standard LOBO loans, which effectively converted £8m of the County Council's loans to fixed rate loans. RBS then sold these two loans totalling £8m to Phoenix Life Assurance Limited (part of Phoenix Group Holdings).

6. MiFID II

- 6.1. The European Union, through its Market in Financial Instruments Directive (MiFID II), is aiming to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. This changing of rules will impact how local authorities can access regulated financial services. Although the UK has voted to leave the EU, MiFID II will still be implemented in the UK on 03 January 2018 for three reasons. Firstly, the UK's residents remain members of the EU and subject to its laws until the UK leaves; secondly, the UK government is in favour of strengthening investor protection; and thirdly, UK firms will wish to continue providing financial services across the EU after the UK has left the EU, so will need to comply with equivalent regulations.
- 6.2. The Financial Conduct Authority (FCA) has some discretion over how to implement this directive in the UK, and it released its final policy statement on the subject in July 2017.

- 6.3. Local authorities are currently treated by financial services firms as “professional clients”, the middle of three categories, and the same as similar-sized companies. But from January 2018, the default position will be that local authorities are to be treated as “retail clients”, the same as individuals and small and medium-sized enterprises, which will entail some increased protection, but at the expense of higher fees, increased paperwork and reduced market access.
- 6.4. It is expected that “opting-up” will be the most favourable position for the County Council as it will allow all investment opportunities detailed within the investment strategy to be accessed, whilst being a retail investor will limit investment opportunities, for example no access to money market funds or brokers. Opting up to professional status will also allow continued access to the current asset classes the County Council is invested in, without the increased fees that retail asset classes demand. Opting up will mean the County Council will not be able to take advantage of the increased protections available to retail clients (retail protections are available at Annex 1 – this list was provided by the Local Government Association and represents protections for all different types of investment, including investments not applicable under the current treasury management strategy). However, this will not be a change from the current status, as these protections are not currently afforded to professional clients.
- 6.5. Local authorities will be permitted to “opt-up” to professional client status, providing they meet the following criteria:
- 6.6. the firm has assessed that the person authorised to carry out transactions on the local authority’s behalf has the expertise, experience and knowledge to give reasonable assurance in light of the nature of the transactions or services envisaged, that they are capable of making their own investment decisions and understanding the risks involved;
- the size of the local authority’s investment portfolio (including cash deposits) exceeds £10 million; and
- at least one of the following is true:
- the local authority has carried out transactions, in significant size, on the relevant market at an average frequency of ten per quarter over the previous four quarters;
- the person authorised to carry out transactions on behalf of the local authority works or has worked in the financial sector (including as a treasury manager) for at least one year in a professional position, which requires knowledge of the services envisaged; or
- the local authority is a Local Government Pension Scheme administering authority and is acting in that capacity (this was not included in the consultation).
- 6.7. Considering these criteria, the County Council should be able to opt up to professional client status to maintain the most favourable investment position possible, but this will be decided on a per investment basis in conjunction with the County Council’s Finance team. Significant work will be undertaken over

the months to January 2018 to achieve this aim. So as to enable the opt-up process a number of recommendations have been included on page 1 of this appendix.

- 6.8. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.
- 6.9. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status.

7. Compliance with Prudential Indicators

- 7.1. Within 2017/18 to date, the County Council operated within the Prudential Indicators for 2017/18, which were set in February 2017 as part of the County Council's Treasury Management Strategy Statement.

Authorised Limit and Operational Boundary for External Debt

- 7.2. CIPFA's Code of Practice requires authorities to set an authorised limit for external debt, defined as the sum of external borrowing and other long-term liabilities. The annual strategy report agreed by the County Council in February 2017 set an authorised limit for external debt of £960m.
- 7.3. This limit is based on the estimated CFR in order to enable it to be financed entirely from external borrowing should the County Council's internal reserves become depleted. The limit also includes an allowance for temporary borrowing to cover normal revenue cash flow requirements and unexpected outflows or delays in receiving cash.
- 7.4. The County Council has set an operational boundary for external debt reflecting the more likely scenario and consistent with the County Council's capital plans and Treasury Management Strategy. Temporary breaches of 2017/18 operational boundary can take place for cash flow reasons, but any sustained breach will lead to further investigation. The County Council approved an operational boundary for 2017/18 of £860m.

Table 3: Authorised Limit and Operational Boundary for External Debt

	Authorised Limit £m	Operational Boundary £m	2017/18 Actual £m
Borrowing*	750	690	445
Other long-term liabilities	210	170	57
Total Debt	960	860	502

7.5. During the period to 31 August 2017, borrowing remained well within the authorised limit and operational boundary, and no new long-term borrowing has been taken out.

8. Treasury Management Indicators

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

Interest Rate Exposures

8.2. The County Council has to set an upper limit on its fixed and variable interest rate exposures for both total investments and total external debt. This indicator is set to control the County Council's exposure to interest rate risk. The County Council approved the following upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed or invested. None of the limits have been exceeded.

Table 4: Interest Rate Exposures

	2017/18 limit	Maximum to 31 August 2017
Upper limit on fixed interest rate investment exposure	£375m	£132.5m
Upper limit on variable interest rate investment exposure	£700m	£556.2m
Upper limit on fixed interest rate borrowing exposure*	£960m	£445.1m
Upper limit of variable interest rate borrowing exposure	£960m	£56.9m

* Includes Waste Management and Street Lighting contracts

8.3. The limit for borrowing rate exposures has been set to enable maximum policy flexibility for the potential for refinancing e.g. from variable to fixed rate borrowing. The County Council's entire long-term debt portfolio is currently made up of fixed interest loans.

8.4. The upper limit for exposures for investments rates is based on an extreme case of the total investment balances, and to allow for all of this to be held at variable rates (investments with a maturity of less than one year) if necessary.

Maturity Structure of Borrowing

8.5. The Code also requires the County Council to set upper and lower percentage limits on the maturity structure of its long-term fixed rate borrowing during 2017/18. The following table shows the limits approved by the County Council. These have been set to allow maximum flexibility in managing the debt portfolio and are consistent with the existing portfolio.

Table 5: Maturity Structure of Borrowing

	Upper	Lower	Actual
Under 12 months	50%	0%	4.9%
12 months and within 24 months	50%	0%	0.0%
24 months and within 5 years	50%	0%	11.6%
5 years and within 10 years	75%	0%	17.3%
10 years and within 20 years	75%	0%	51.7%
20 years and within 30 years	75%	0%	14.5%
30 years and above	100%	0%	0.0%

Principal Sums Invested for Periods Longer than 364 days

- 8.6. 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. For 2017/18 the County Council restricted investments for periods of over a year to maximum of £375m. Although at 31 August 2017 the County Council had £272m of investments with over 364 days to their maturity, this indicator reached its peak in May 2017 at £302m.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the management of the County Council’s cash balance needs to be decided.

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

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

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

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. 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 under the Act;

Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;

Foster good relations between persons who share a relevant protected characteristic 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 characteristic connected to that characteristic;

Take steps to meet the needs of persons sharing a relevant protected characteristic 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 which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

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

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. Communicating with clients, including financial promotions

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. Information about the firm, its services and remuneration

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

(A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

(B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

(C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

(D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. Suitability

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. Appropriateness

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate.

In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. Dealing

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. Reporting information to clients

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. Client reporting

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. Financial Ombudsman Service

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. Investor compensation

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. Exclusion of liability

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. Trading obligation

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-

country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. Transfer of financial collateral arrangements

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. Client money

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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Hampshire County Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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Agenda Item 9



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

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 (updated 23 February 2017)" issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Hampshire County Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's: ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that the Council has put in place proper arrangements to secure value for money in its use of resources.

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

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

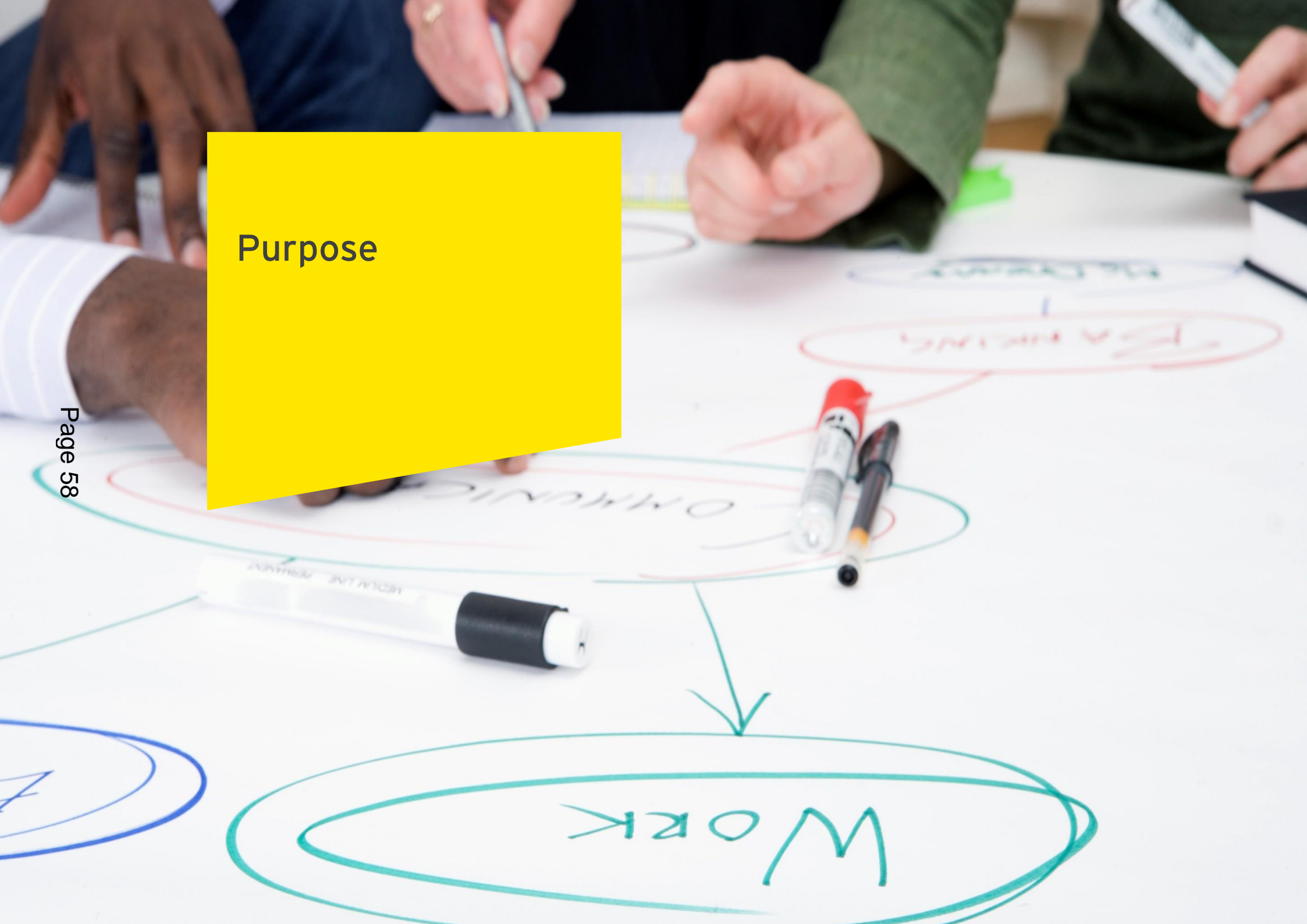
Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 1 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 September 2017.

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

Maria Grindley

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 28 September 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 19 January 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements, including the pension fund; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Responsibilities of the Council

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

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

Financial Statement Audit

Financial Statement Audit

Key Issues

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

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported to the 28 September 2017 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;</p> <p>We reviewed accounting estimates (NDR provisions, IAS 19 pension transactions, and Property Plant and equipment balances) for evidence of management bias;</p> <p>We evaluated the business rationale for any significant unusual transactions; and</p> <p>We performed analytical review procedures and tested accruals and provisions.</p> <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

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

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £20.553million (2016: £20.6 million), which is 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.028 million (2016: £1.032 million)

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

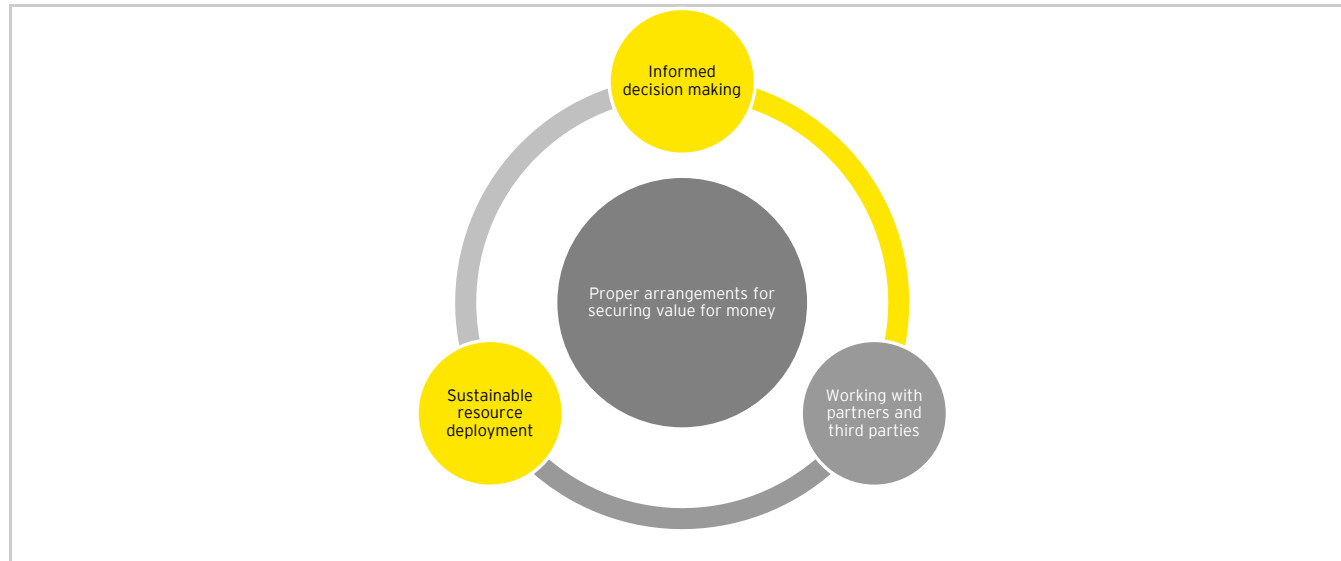
Value for Money

Value for Money

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

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

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



We did not identify any significant risks in relation to these criteria.

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

We therefore issued an unqualified value for money conclusion on 28 September 2017.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

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

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

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 28 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

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

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

EY | Assurance | Tax | Transactions | Advisory

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ED None

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AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 7 July 2017.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

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

Employer Representatives (Co-opted members):

a Councillor P. Giddings (Test Valley Borough Council)
p Councillor M. Chaloner (Southampton City Council)
a Mr D. Robbins (Churchers College)

Scheme Member Representatives (Co-opted members):

p Dr C. Allen (pensioners' representative)
a Mr N. Wood (scheme members representative)
p Mrs V. Arrowsmith (deferred members' representative)

Independent Adviser:

p C. Dobson

14. **BROADCASTING ANNOUNCEMENT**

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

15. **APOLOGIES FOR ABSENCE**

Mr Robbins, Mr Wood and Cllr Mason sent their apologies.

16. **DECLARATIONS OF INTEREST**

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

leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

17. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 16 June 2017 were confirmed.

18. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman made a short statement in memory of Cllr Frank Pearce, a former county council deputy member of the Panel and Board, who sadly had recently passed away.

The Chairman welcomed Cllr Mark Chaloner, who had been appointed as a full member of the Panel and Board, as an employer representative for the unitary authorities. Cllr Hugh Mason would now be the substitute employer representative member.

19. **GOVERNANCE - INTERNAL AUDIT REPORT & OPINION 2016/17**

The Panel considered a report of the Director of Corporate Resources (item 5 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. The Chief Internal Auditor's opinion was that 'substantial assurance' can be placed on the County Council's framework of control for the Pension Fund.

RESOLVED:

- (a) That the Chief Internal Auditor's annual report and opinion statement for 2016/17 was accepted.

20. **GOVERNANCE - PENSION FUND DRAFT ANNUAL REPORT 2016/17**

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 6 in the Minute Book) containing the Pension Fund's Draft Annual Report, including the Pension Fund's Accounts for the year ending 31 March 2017. The Accounts and Annual Report are subject to external audit, which is currently taking place.

RESOLVED:

- (a) That the Annual Report for 2016/17 be approved for publication, and that the Director of Corporate Resources be authorised to make any necessary minor amendments prior to publication.

21. **GOVERNANCE – PENSION FUND PANEL AND BOARD TRAINING IN 2017/18**

The Panel and Board considered a report of the Director of Corporate Resources (item 7 in the Minute Book) setting out the proposed training arrangements for members of the Pension Fund Panel and Board in 2017/18. In particular members noted the importance of training for Panel members in their role in the governance of the Pension Fund and how the training programme is underpinned by the Training Needs Analyses that the members complete.

RESOLVED:

(a) That the 2016/17 training programme was approved, noting that it may be adapted based on changing circumstances, and remainder of the report was noted.

22. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

23. **MINUTES OF PREVIOUS MEETING HELD ON 16 JUNE 2017 (EXEMPT APPENDIX)**

The exempt minutes of the Pension Fund Panel and Board held on 16 June 2017 were confirmed.

24. **INVESTMENTS – INVESTMENT STRATEGY REVIEW**

The Panel and Board noted the exempt appendix from the Director of Corporate Resources (Item 10 in the Minute Book) detailing the Fund's investment strategy review. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

25. **INVESTMENTS – PROPERTY PORTFOLIOS UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 11 in the Minute Book) updating the Panel and Board on the Fund's property portfolios. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 29 September 2017.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

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

Employer Representatives (Co-opted members):

a Councillor P. Giddings (Test Valley Borough Council)
p Councillor M. Chaloner (Southampton City Council)
p Mr D. Robbins (Churchers College)

Scheme Member Representatives (Co-opted members):

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p Mr N. Wood (scheme members representative)
p Mrs V. Arrowsmith (deferred members' representative)

Independent Adviser:

p C. Dobson

BROADCASTING ANNOUNCEMENT

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

26. **APOLOGIES FOR ABSENCE**

Cllr's Carter, Gibson, Giddings and Glen sent their apologies.

27. **DECLARATIONS OF INTEREST**

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

Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

28. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 7 July 2017 were confirmed.

29. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman and Dr Allen provided a summary of the main topics covered at the Local Government Chronicle pensions conference.

The Chairman and Mrs Arrowsmith provided brief feedback from the Schroders autumn conference.

The Chairman thanked all of the full members of the committee for completing their training needs analyses and reminded the committee that the Pension Fund's annual employers meeting was taking place on 13 October 2017.

30. **INVESTMENTS : IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MiFID II)**

The Panel considered a report of the Director of Corporate Resources (item 5 in the Minute Book) outlining the impact of the implementation of the Markets in Financial Instruments Directive (MiFID II) and in particular the risk to the Fund's investment strategy if the administering authority were to become a retail client on 3 January 2018 under the new regulations. In order to continue to effectively implement the Fund's investment strategy after the new regulations take effect, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the administering authority has an existing or potential relationship in relation to the investment of the Fund.

RESOLVED:

- (a) That the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018 was noted.
- (b) That the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy was approved.
- (c) That in electing for professional client status the protections available to retail clients attached as Appendix 1 of the report that would be foregone were acknowledged and agreed.
- (d) That the importance of the identification and participation in training by Panel and Board members in the Pension Fund

- securing elected professional client status was noted.
- (e) That delegated responsibility to the Director of Corporate Resources for the purpose of completing the applications and determining the basis of the application as either full or single service was approved.

31. **GOVERNANCE: PENSION FUND COSTS 2016/17**

The Panel and Board considered and noted a report of the Director of Corporate Resources (item 6 in the Minute Book) on the costs of managing the Pension Fund in the financial year 2016/17. Costs were disclosed according to the three categories specified in CIPFA's guidance on Pension Fund Accounts; investment management costs, administration expenses and oversight and governance costs.

The Panel and Board noted that while the cost of managing the Pension Fund was significant, it was low in comparison to the overall size of the Pension Fund and in line with Hampshire's position as one of the largest LGPS funds. It was highlighted that investment management costs had increased in percentage terms, due to the large transition between the Fund's global equity portfolios and the increased allocation to alternative investments, some of which were now able to charge a fee based on their investment performance which had exceeded the base levels set out in the funds' agreements.

32. **EXCLUSION OF 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 1, 2 and 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.

33. **MINUTES OF PREVIOUS MEETING HELD ON 7 JULY 2017 (EXEMPT APPENDIX)**

The exempt minutes of the Pension Fund Panel and Board held on 7 July 2017 were confirmed.

34. **GOVERNANCE: PENSION FUND COSTS 2016/17 APPENDIX 1**

The Panel and Board noted the exempt appendix from the Director of Corporate Resources (Item 9) in the Minute Book) detailing the Fund's investment management costs. [SUMMARY OF A MINUTE WHICH

CONTAINS EXEMPT INFORMATION]

35. **GOVERNANCE: PROVISION OF ADVICE TO THE PANEL AND BOARD**

The Panel and Board considered the exempt report from the Director of Corporate Resources (Item 10 in the Minute Book) to consider the advice provided to the Pension Fund Panel and Board. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

36. **INVESTMENTS - INVESTMENT UPDATE INCLUDING RECENT PERFORMANCE RETURNS**

The Panel and Board considered the exempt report from the Director of Corporate Resources (Item 11 in the Minute Book) updating the Panel and Board about the progress of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

37. **INVESTMENTS – PROPERTY PORTFOLIOS UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 12 in the Minute Book) updating the Panel and Board on the Fund's alternative investment portfolios. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 13 October 2017.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

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

Employer Representatives (Co-opted members):
a Councillor P. Giddings (Test Valley Borough Council)
p Councillor M. Chaloner (Southampton City Council)
p Mr D. Robbins (Churchers College)

Scheme Member Representatives (Co-opted members):
p Dr C. Allen (pensioners' representative)
p Mr N. Wood (scheme members representative)
a Mrs V. Arrowsmith (deferred members' representative)

Independent Adviser:
p C. Dobson

BROADCASTING ANNOUNCEMENT

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

38. **APOLOGIES FOR ABSENCE**

Cllr's Giddings, Glen, Latham and Mrs Arrowsmith sent their apologies.

39. **DECLARATIONS OF INTEREST**

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

Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

40. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman thanked members for their attendance at the Pension Fund's Annual Employers Meeting earlier that day.

The Chairman asked members to save any updates on training events they had attended until the Panel and Board's next meeting on 3 November 2017.

41. **EXCLUSION OF 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 1, 2 and 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.

42. **INVESTMENTS – INVESTMENT STRATEGY REVIEW**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 5 in the Minute Book) with proposals for amendments to the Pension Fund's investment strategy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

By virtue of paragraph(s) 1, 2, 3, 5 of Part 1 of Schedule 12A of the Local Government Act 1972.

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of the Local Government Act 1972.

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