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### NOTICE OF MEETING

Meeting Audit Committee

**Date and Time** Thursday, 26th July, 2018 at 2.45 pm

Place Wellington Room, Ell 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.

### 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 held on 22 May 2018.

### 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. EXTERNAL AUDIT REPORTS 2017/18 - HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND (Pages 9 - 92)

To receive the external auditors report for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2018.

# 7. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS (Pages 93 - 104)

To consider the report of the Directors of Culture, Communities and Business Services and Transformation and Governance – Corporate Services on the County Council's use of surveillance.

# 8. INTERNAL AUDIT ANNUAL REPORT & OPINION 2017-18 (Pages 105 - 122)

To consider the report of the Deputy Chief Executive and Director of Corporate Resources outlining the annual report and opinion of the Chief Internal Auditor regarding the County Council's framework of risk management, internal control and governance.

### **9. ANNUAL FRAUD REPORT 2017-18** (Pages 123 - 138)

To consider the report of the Deputy Chief Executive and Director of Corporate Resources with an overview of reactive and proactive counter fraud activity undertaken by internal audit throughout 2017-18.

### 10. INTERNAL AUDIT PLAN 2018-19 (Pages 139 - 160)

To consider a report of the Deputy Chief Executive and Director of Corporate Resources providing an overview of the County Council's Internal Audit Plan.

### **11. INTERNAL AUDIT CHARTER 2018-19** (Pages 161 - 174)

To consider the report of the Deputy Chief Executive and Director of Corporate Resources presenting the Internal Audit Charter 2018-19 in accordance with the requirements of the Public Sector Internal Audit Standards.

### **12. ANNUAL GOVERNANCE STATEMENT** (Pages 175 - 192)

To consider the report of the Directors of Transformation and Governance and Corporate Resources – Corporate Services presenting the Annual Governance Statement.

### **13. STATEMENT OF ACCOUNTS 2017/18** (Pages 193 - 400)

To consider the report of the Deputy Chief Executive and Director of Corporate Resources presenting the annual Statement of Accounts.

# 14. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 9 APRIL 2018 (LESS EXEMPT) (Pages 401 - 404)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 9 April 2018.

### 15. EXCLUSION OF THE PRESS AND PUBLIC

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

# 16. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 9 APRIL 2018 (EXEMPT) (Pages 405 - 410)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 9 April 2018.

### **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 <a href="members.services@hants.gov.uk">members.services@hants.gov.uk</a> 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.

# Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL held at The Castle, Winchester on Tuesday, 22nd May, 2018

# Chairman: p. Councillor Keith Evans

- p. Councillor Alexis McEvoy
- p. Councillor Dominic Hiscock
- p. Councillor Keith House
- a. Councillor Mark Kemp-Gee
- p. Councillor Derek Mellor

- a. Councillor Rob Mocatta
- p. Councillor Lance Quantrill
- a. Councillor Tom Thacker
- p. Councillor Zilliah Brooks

### 56. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Kemp-Gee, Mocatta and Thacker. Councillor Brooks was in attendance as the Conservative deputy member.

### 57. **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.

### 58. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 8 February 2018 were agreed as a correct record and signed by the Chairman.

### 59. **DEPUTATIONS**

There were no deputations.

### 60. CHAIRMAN'S ANNOUNCEMENTS

There were no announcements.

# 61. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS

The Committee received and noted the report of the Director of Transformation and Governance (Item 6 in the Minute Book).

#### 62. ANNUAL TREASURY OUTTURN REPORT 2017/18

The Committee considered the annual report of the Director of Corporate Resources – Corporate Services (Item 7 in the Minute Book) regarding the performance of the treasury function during 2017/18 including the effects of any decisions taken and transactions executed throughout the year.

### RESOLVED:

That the Audit Committee notes the following recommendations being reported to Cabinet and Full Council:

- i) The approval of the addition of a further £0.5m to the Investment Risk Reserve created in the County Council's accounts in 2017/18 as protections against the irrecoverable fall in value of any investments.
- ii) That the outturn review of treasury management activities be noted.

### 63. RELATED PARTY DISCLOSURE 2017/18 - UPDATE

The Committee considered the report of the Director of Corporate Resources – Corporate Services (Item 8 in the Minute Book) regarding the return of related party declarations by elected members.

The Committee discussed the circumstances for the individual Councillor, as outlined within the report, who was yet to return their 2017/18 related party declaration.

Discussion was also held regarding the current procedure used when collecting declarations although members did not suggest any amendments to the current approach.

### **RESOLVED:**

The Audit Committee agreed that:

- The current County Councillor who, as at 30 June 2018 still has not returned their 2017/18 related party declaration to the Director of Corporate Resources, that Councillor will be referred to the Conduct Advisory Panel.
- ii) That there be no change to the approach used for the collection of declarations regarding related party transactions each financial year.

# 64. HAMPSHIRE PENSION FUND AND HAMPSHIRE COUNTY COUNCIL FEE LETTERS 2018/19

The Committee received and noted the report of the Director of Transformation and Governance (Item 9 in the Minute Book).

# 65. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 15 DECEMBER 2017 (LESS EXEMPT)

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 15 December 2017 (Item 10 in the Minute Book).

### 66. EXCLUSION OF THE PRESS AND PUBLIC

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

# 67. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 15 DECEMBER 2017 (EXEMPT)

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 15 December 2017 (Item 12 in the Minute Book).



### HAMPSHIRE COUNTY COUNCIL

### **Decision Report**

Decision Maker:	Audit Committee
Date:	26 July 2018
Title:	External Audit Reports 2017/18 – Hampshire County Council and Hampshire Pension Fund
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Neil Pitman

**Tel:** 01962 845139 **Email:** neil.pitman@hants.gov.uk

### 1. Recommendation

1.1 That the Audit Committee receives and notes the results of the external auditors reports for both Hampshire County Council (attached at Appendix 1) and the Hampshire Pension Fund (attached at Appendix 2) for the year ending 31 March 2018.

### **CORPORATE OR LEGAL INFORMATION:**

### **Links to the Strategic Plan**

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

### 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;
- 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;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally low.

### 1.2. Equalities Impact Assessment:

A high level Equalities Impact Assessment has been undertaken. The grants are intended to have a positive impact and advance equality.

### 2. Impact on Crime and Disorder:

2.1 Not applicable.

### 3. Climate Change:

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

Not applicable.

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

Not applicable.









Private and Confidential 16 July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hampshire County Council for 2017/18.

We have substantially completed our audit of Hampshire County Council (the Council) for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form that appears in section 3, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 26 July 2018.

Yours faithfully

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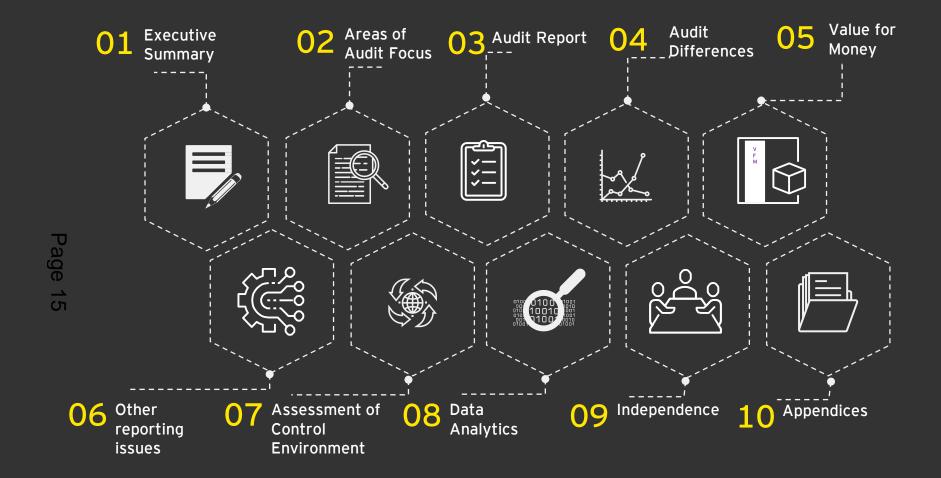
Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# **Contents**



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (<a href="www.PSAA.co.uk">www.PSAA.co.uk</a>). 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 February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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





### Executive Summary

### Scope update

In our audit planning report presented at the 8 February 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of 2% of gross expenditure based on the 2016/17 statements, resulting in a materiality of £41.1m. We updated our planning materiality assessment using the draft financial statements for 2017/18 and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £42.5m. Our updated performance materiality, at 75% of overall materiality, is £31.9m, and the updated threshold for reporting misstatements to you is £2.1m.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

### Status of the audit

We have substantially completed our audit of Hampshire County Council's financial statements for the year ended 31 March 2018 and have performed the procedures **Total** timed in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's **M**inancial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

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completion of our audit procedures on discrete elements of income and expenditure;

- completion of our detailed review in certain areas of work and our final review and sign off;
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

### Audit differences

At this stage of the audit we have identified one unadjusted audit difference, this relates to judgemental difference in the valuation of the Council's share of the Hampshire Pension Fund assets as a result of timing differences in the actuarial valuation. More details on this error are included in section 4.

# Executive Summary

### Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Hampshire County Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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

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

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

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### Sontrol observations

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

### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



### Other reporting issues

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

We are currently completing the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We will report any issues to you at the Audit Committee on 26 July 2018.

We have no other matters to report.

### Independence

Bease refer to Section 9 for our update on Independence.





# Significant risk

Risk of fraud in revenue and expenditure recognition

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The risk in local government resides in areas in which management judgements are made and transactions not subject to routine based system controls. As such we attach the risk of revenue recognition to the judgements made in recognising capital expenditure and the subsequent capital financing transactions.

### What judgements are we focused on?

The risk is focused on significant transactions that are outside the normal course of siness for the entity, or that otherwise appear to be unusual given our Maderstanding of the entity and its environment and other information obtained the audit.

We have identified the following unusual transactions which we consider to present a risk of revenue and expenditure recognition:

- Minimum Revenue Provision (MRP):
- Capital Financing Requirement (CFR);
- Revenue and Expenditure Funded from Capital Under Statute (REFCUS); and
- Property, Plant and Equipment (PPE) additions.

### What did we do?

#### We:

- Engaged with management to understand the overall financial position;
- Examined data that supports significant additions and disposals during the period;
- Reviewed the schedule of expenditure classified as Revenue Expenditure Funded by Capital Under Statute (REFCUS);
- Ensured the calculation of the Capital Financing Requirement is compliant with the Code:
- Ensured additions and disposals tested in PPE are internally consistent with the capital financing disclosure; and
- Reviewed and discussed with management any accounting estimates on revenue recognition for evidence of bias.

### What are our conclusions?

Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.



# Risk of fraud in revenue and expenditure recognition



Further details on procedures/work performed

#### Procedures focused on revenue account

Review and test revenue and expenditure cut-off at the period end date;

We extended our cut-off procedures with testing on cash and accounts payable transactions around year-end.

Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;

► This has been reviewed as part of our work on the testing of accruals.

### Rnocedures focused on balance sheet

### apital Financing Requirement and Minimum Revenue Provision

We ensured that the calculation of the Capital Financing Requirement was compliant with the requirements of the Code and that the disclosure in the financial statements are internally consistent with the PPE, Investment Property, Intangible Assets and Group Account notes. We checked that MRP was appropriately calculated using the method outlined in the prudential code, paying specific attention to any MRP on unsupported borrowing.

#### **REFCUS**

 Reviewed expenditure classified as REFCUS and ensured that the expenditure met the broad principle of allowable expenditure, or was incurred under direction from the secretary of state.

### Additions and disposals

For significant additions (including capitalized labour, borrowing costs and other acceptable costs) and disposals during the period, we examined invoices, capital expenditure authorizations, leases and other data that supported the additions and disposals, to ensure assets capitalized met the correct definition and that the capital expenditure was appropriately recognized

#### Minute Review

We reviewed the Council's minutes to identify any transactions that may be outside the normal course of business

#### **Journals**

• We gained an understanding of the manual journal posting protocol in place at the Council for which the accounting entries for capital expenditure are made.



# Significant risk

Misstatements due to fraud or error/ Risk of management override of control

### What is the risk?

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

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

### what judgements are we focused on?

we have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. We have concluded that the judgements we are focused Ware items of non-routine income and expenditure, involving management estimation and judgement, rather than transactions created through routine invoicing processes.

As this relates to how the Council recognises revenue and expenditure, we have addressed the risk through our procedures to address the risk of fraud in revenue and expenditure recognition.

Our work on the risk of management override therefore focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records

### What did we do?

We addressed the residual risk of management override through the following procedures:

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements:
- We reviewed accounting estimates for evidence of management bias (as noted above relating to revenue and expenditure recognition); and
- We evaluated the business rationale for any significant unusual transactions.

### What are our conclusions?

Our testing has not identified any material weaknesses in controls or evidence of material management override. Out testing has not identified any instances of inappropriate judgements being applied.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.



### Other areas of audit focus

In our Audit Planning Report, we identified other areas of the audit, that were not classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### What is the risk/area of focus?

### Valuation of Land and Buildings

Land and buildings is one of the most significant balances in the Council's Balance Sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

# Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £1.340 million.

The information disclosed is based on the IAS 19 report issued by the actuary to the County Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### What did we do?

#### We have:

- Reviewed the data sent to, and the report produced by, the Council's valuer;
- Challenged the assumptions used by the Council's valuer by reference to external evidence; and
- ► Tested the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements.

Conclusion: We have concluded that the valuation has been accurately processed and reflected in the financial statements.

#### We have:

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Council's scheme members, this identified not issues with the information provided to the actuary;
- Assessed the work of the LGPS Pension Fund actuary (AoN Hewitt) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team: and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

**Conclusion:** We have identified an immaterial difference in the pension fund liability valuation. This is due to timing reasons, where the actuary estimates the value of the pension fund assets at 31 March. This varied by approximately £31m from the actual fund value as at 31 March. The Council's estimated share of this variance is £11.44m, which is not material but above our threshold to report to you.

Management have decided not to adjust the accounts for this non-material variance and we have reported this in section 4.



# Draft audit report

### Our opinion on the financial statements (draft)

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

#### Opinion

We have audited the financial statements of Hampshire County Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

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- Movement in Reserves Statement;
- Balance Sheet:

- Cash Flow Statement:
- Comprehensive Income and Expenditure Statement; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hampshire County Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGNO1, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ► the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



### Our opinion on the financial statements

#### Other information

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

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

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

We have nothing to report in this regard.

## Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Hampshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### Responsibility of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities set out on page 28, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.



### Our opinion on the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Hampshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hampshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



### Our opinion on the financial statements

#### Certificate

We certify that we have completed the audit of the accounts of Hampshire County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### Use of our report

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

Maria Grindley (Key Audit Partner) Ernst & Young LLP (Local Auditor) Reading 26 July 2018 The maintenance and integrity of the Hampshire County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.





### Audit Differences

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

### Summary of adjusted differences

We highlight misstatements greater than £31.9m which have been corrected by management that were identified during the course of our audit.

Subject to completion of our audit, there are currently no corrected misstatements identified greater than this threshold.

### Symmary of unadjusted differences

🙀 have included all judgemental amounts greater than £2.12m relating to Hampshire County Council in our summary of misstatements table below.

There is one unadjusted difference. This is a judgemental difference in relation to the pension fund asset figure on the LGPS scheme, where the actuarial valuation of the scheme's assets is based on an estimated asset value at 31 March 2018 and there is a difference of £31m between the actual value of the Hampshire Pension Fund at 31 March 2018. This results in the Authority's share of the pension fund asset being understated by £11.44m, resulting in the net pension liability disclosed in the Council's balance sheet being overstated by the same amount.

#### Comments on disclosure notes

The draft accounts submitted for audit included a number of casting, consistency and cross-referencing errors which have been amended by management.

We will complete final checks to ensure that all of the above errors have been amended in the final version of the accounts.



### Audit Differences

### Summary of unadjusted differences

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

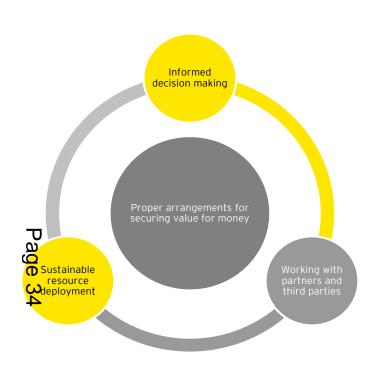
Uncorrected misstatements 31 March 2018 (£000)	Effect on the current period:	B	Balance Sheet (Decrease)/Increase		
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Dudgemental difference in estimation of share of pension assets					
Between IAS19 report and the actual year end assets of Hampshire Pension Fund.	(11,440)				11,440

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the financial statements for the year ended 31 March 2018.



# V F M

### Value for Money



### **Background**

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.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

### **Overall conclusion**

In our audit plan we communicated that we had not identified any significant risks around these criteria, and that we would keep this under review throughout the audit. From our procedures through the audit we have not identified any significant risks to our value for money conclusion. programmes.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

While we have no matters to report in relation to the criteria above, we recognise that there are financial pressures on the Council, particularly in relation to Adult Social Care and Children's Services, which the Council is addressing through its transformation to 2019 savings. We will keep this under review are part of our 2018/19 audit.



# Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

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

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

### hole of Government Accounts

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

At the time of writing this report we are in the process of completing this work, we will report any findings to the Audit Committee on 26 July 2018.

### Other powers and duties

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

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

# **Other reporting issues**

# Other reporting issues

#### Other matters

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

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties; External confirm External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- **€** Group audits
- To date there are no significant issues to report. We will update this on completion of our work.





## Assessment of Control Environment

#### **Financial controls**

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice.

Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

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#### Reliance on internal audit

We have reviewed Internal Audit reports issued to management during the period to April 2018 to ensure that any financial statement risks identified are considered in determining the extent of our audit procedures.



# Use of Data Analytics in the Audit

# Data analytics

**Analytics Driven Audit** 

Page 41

## **Data analytics**

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

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

In 2017/18, our use of these analysers in the Council's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

#### **Journal Entry Analysis**

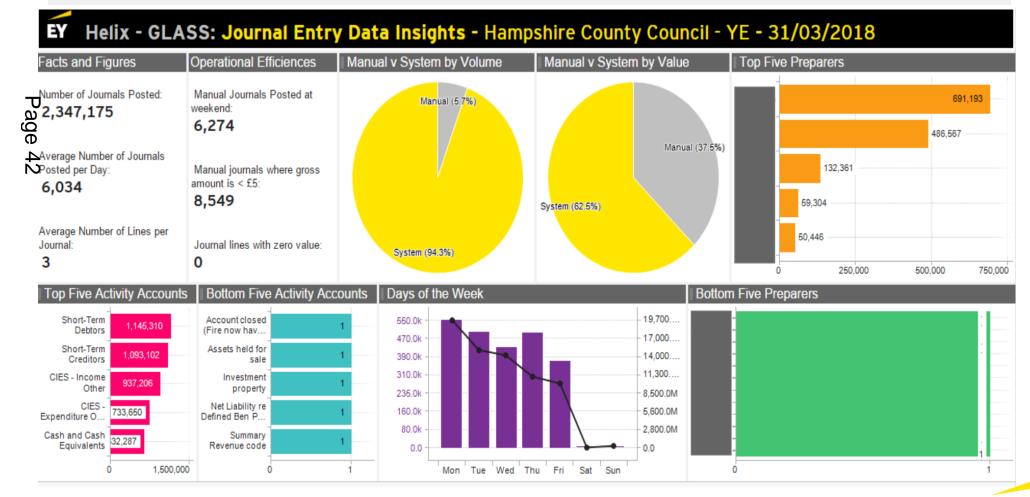
We obtained downloads of all the Council's financial ledger transactions posted in the year. We performed completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then reviewed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



## **Journal Entry Data Insights**

The graphic outlined below summarises the Council's journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



# Journal Entry Testing

### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria - Hampshire County Council - 31 March 2018



#### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

#### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.





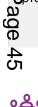
# Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Planning Report dated February 2018

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 26 July 2018.



# **Page 3** Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	ТВС	116,519	116,519	116,519

## Independence



# Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The slide above and in statute. The slide above includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard

We confirm that none of the services provided have been on a contingent fee basis.

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





# Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

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

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded Page

Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Trade payables	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	We tested controls over all relevant assertions with limited substantive testing performed in accordance with auditing standards	No change
Tangible fixed assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Cash	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change



# Appendix B

# Summary of communications

Date	Nature Nature	Summary
January 2018	Report	The Audit Planning Report, including confirmation of independence, was issued to the Audit Committee.
8 February 2018	Meeting	Senior Manager for the engagement met with the Audit Committee and senior members of the management team to discuss the Audit Planning Report.
3 May 2018	Meeting	The engagement partner and senior manager for the engagement met with management to discuss the timings of the audit and the key matters impacting the Council
13 July 2018	Meeting	Audit close meeting with the management team to discuss the preliminary findings of the audit.
16 July 2018	Report	The Audit Results Report, including confirmation of independence, was issued to the Audit Committee.
26 July 2018 ရွှ	Meeting	The engagement partner, accompanied by other senior members of the audit team, met with the Audit Committee and senior members of the management team to discuss the Audit Results Report.

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



## Appendix C

# Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement ව හු	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report presented at the Audit Committee 8 February 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report presented at the Audit Committee 8 February 2018
Significant findings from the audit	<ul> <li>Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Significant difficulties, if any, encountered during the audit</li> <li>Significant matters, if any, arising from the audit that were discussed with management</li> <li>Written representations that we are seeking</li> <li>Expected modifications to the audit report</li> <li>Other matters if any, significant to the oversight of the financial reporting process.</li> </ul>	Audit Results Report presented at the Audit Committee 26 July 2018



		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<ul> <li>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</li> <li>Whether the events or conditions constitute a material uncertainty</li> <li>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Hampshire County Council's ability to continue for the 12 months from the date of our report
Misstatements  Page	<ul> <li>Uncorrected misstatements and their effect on our audit opinion</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Material misstatements corrected by management</li> </ul>	Audit Results Report presented at the Audit Committee 26 July 2018
Subsequent events	► Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Request for Audit Committee to approve the letter of representation from management at the Audit Committee meeting on 26 July 2018
Fraud	<ul> <li>Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving:         <ul> <li>Management;</li> <li>Employees who have significant roles in internal control; or</li> <li>Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Enquiries by letter to the Chair of the Audit Committee dated 10 April 2018



		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, when applicable:  ► Non-disclosure by management  ► Inappropriate authorisation and approval of transactions  ► Disagreement over disclosures  ► Non-compliance with laws and regulations  ► Difficulty in identifying the party that ultimately controls the Council	Audit Results Report presented at the Audit Committee 26 July 2018
Independence Page 52	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.  Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:  The principal threats  Safeguards adopted and their effectiveness  An overall assessment of threats and safeguards  Information about the general policies and process within the firm to maintain objectivity and independence  Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Initial reporting in the Audit Planning Report presented at the Audit Committee 8 February 2018  Confirmation in the Audit Results Report presented at the Audit Committee 26 July 2018
External confirmations	<ul> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit Results Report presented at the Audit Committee 26 July 2018
Consideration of laws and regulations	<ul> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	Audit Results Report presented at the Audit Committee 26 July 2018



		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	► Significant deficiencies in internal controls identified during the audit.	Audit Results Report presented at the Audit Committee 26 July 2018
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance	Request for Audit Committee to approve the letter of representation from management at the Audit Committee meeting on 26 July 2018
Material inconsistencies misstatements of the identified in other management has refused to revise	► Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report presented at the Audit Committee 26 July 2018
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report presented at the Audit Committee 26 July 2018
Fee Reporting	<ul> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Initial reporting in the Audit Planning Report presented at the Audit Committee 8 February 2018 Confirmation in the Audit Results Report presented at the Audit Committee 26 July 2018



# Appendix D

# **Outstanding matters**

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed management representation letter	Management and Audit Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Completion of final areas of testing	Receipt of outstanding support for audit requests, and documentation and review on our files.	EY and management



## Appendix E

# Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead] [Date]

#### **Ernst & Young**

Apex Plaza Forbury Road Reading RG1 1YE

Dear Maria,

### Hampshire County Council - Audit for the year ended 31 March 2018

This letter of representations is provided in connection with your audit of the financial statements of Hampshire County Council ("the Council") for the year ended 31/03/2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Authority financial position of Hampshire County Council as of 31/03/2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

#### A. Financial Statements and Financial Records

- 1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- 2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
- 3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
- 4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
- 5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



# Management representation letter

#### **Management Rep Letter**

- B. Non-compliance with law and regulations, including fraud
- 1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
- 2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- $_{\Omega}$ 3. We have disclosed to you the results of our assessment of the risk that the  $_{\Omega}$ financial statements may be materially misstated as a result of fraud.
- 4. We have no knowledge of any identified or suspected non-compliance with aws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - · involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other noncompliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### C. Information Provided and Completeness of Information and Transactions

- 1. We have provided you with:
- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- 2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee(or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on 26 July 2018.
- 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.



# Management representation letter

### **Management Rep Letter**

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

#### D. Liabilities and Contingencies

- 1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
- 2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

## E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

## +. Other information

- 1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement.
- 2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Ownership of Assets

- 1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Authority has satisfactory title appear in the balance sheet.
- 2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
- 3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

#### H. Reserves

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

#### I. Use of the Work of a Specialist

1.We agree with the findings of the specialists that we engaged to evaluate the fair value of property, plant and equipment and the IAS19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### J. Pension Liability and PPE Valuations Estimate

- 1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- 2. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
- 3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- 4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

#### K. Retirement benefits

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

Yours sincerely, Chief Financial Officer Chairman of the Audit Committee

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This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

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Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hampshire Pension Fund for 2017/18.

We have substantially completed our audit of Hampshire Pension Fund for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.  $% \label{eq:control_eng} % \label{eq:control_eng} % \label{eq:control_eng} % \label{engagement} % \labe$ 

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

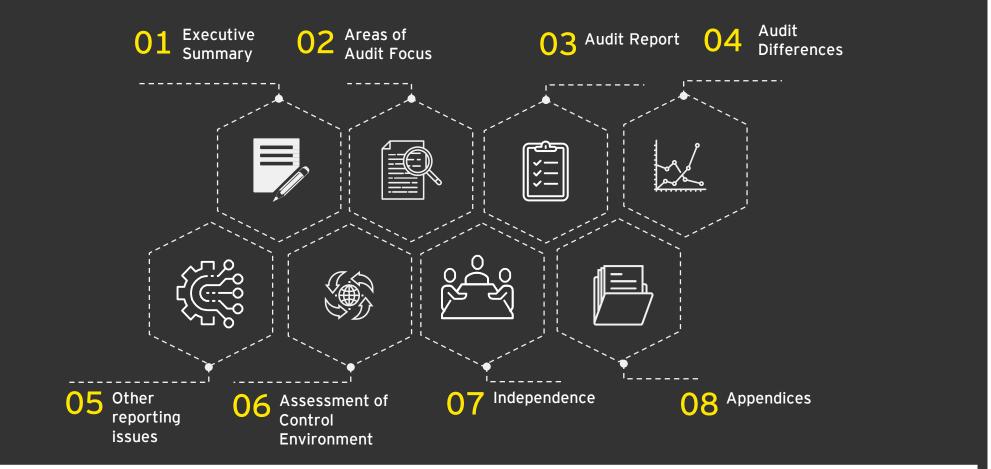
Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

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# **Contents**



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.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 February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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





#### Scope update

In our Audit Plan presented to the Audit Committee on 8 February 2018, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We have carried out our audit in accordance with this plan. There have been no changes in our planned audit strategy.

In our plan we communicated that we planned our procedures using a materiality of £63.3 million based on 1% of Net Assets. However, at the committee meeting we confirmed that following a change in internal guidance we had concluded that it was appropriate base materiality on 2% of Net Assets, and that we had therefore used £126.6 million to plan our procedures.

We reassessed this using the actual year-end figures, which have increased this amount to £132.2 million. The threshold for reporting audit differences has increased from £6.3 million to £6.6 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of Net Assets.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them.

They include Related Party Transactions - The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.

### tatus of the audit

whe have substantially completed our audit of Hampshire Pension Fund's financial statements for the year ended 31 March 2018 and have performed the procedures withined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears in section 3.

However until the following work is complete, further amendments may arise. The outstanding items are:

- Completion of subsequent events review;
- > Completion of Final Review Procedures; and
- > Receipt of the signed Management Representation letter.

#### **Audit differences**

There are no unadjusted audit differences arising from our audit.

We identified a number of minor disclosure and presentational matters in the draft financial statements and annual report which have been adjusted by management. Further details are provided in section 4.



### Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Hampshire Pension Fund's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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

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

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

### Control observations

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have adopted a fully substantive approach and therefore, have not tested the operation of controls.

### Other reporting issues

We have reviewed the information presented in the Annual Report for consistency with the financial statements and our knowledge of the Fund.

We have no matters to report as a result of this work.

### Independence

Please refer to Section 7 for our update on Independence. We have no independence issues to highlight.





## Areas of Audit Focus

# Significant risk

### Risk of management override

#### What is the risk?

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

We identify and respond to this fraud risk on every audit engagement.

### Uhat judgements are we focused on?

e have assessed that the risk of management override is most likely to affect investment income and assets in the year, specifically through Qurnal postings.

Net return on investments at 31 March 2018: £276.7 million.

Total net assets of the Fund available at 31 March 2018: £6.6 billion.

#### What are our conclusions?

Our testing has not identified any material misstatements from investment income or year end investment assets.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

#### What did we do?

We performed the following audit procedures:

- ▶ Tested journals at year-end to ensure there were no unexpected or unusual postings;
- ▶ Had discussions with management about risks of fraud and the controls put in place to address those risks:
- ▶ Gained an understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- ▶ Re-performed the detailed investment note using the reports we acquired directly from the custodian or fund managers;
- ▶ Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports;
- ► Evaluated the business rationale for significant unusual transactions.
- ▶ Reviewed accounting estimates for evidence of management bias; and
- ▶ For quoted investment income we agreed the reconciliation between fund managers and custodians back to the source reports.

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.



## **Draft Audit Report**

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE PENSION FUND

#### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGNO1, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

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



## **Audit Report**

#### Our opinion on the financial statements

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

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

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### Responsibility of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 28, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

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## **Audit Report**

#### Our opinion on the financial statements

#### Auditor's responsibilities for the audit of the financial statements

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

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

#### Use of our report

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

Maria Grindley (Key Audit Partner) Ernst & Young LLP (Local Auditor) Reading XX July 2018

The maintenance and integrity of the Hampshire County Council's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.





## Audit Differences

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

### Summary of adjusted differences

We highlight the following misstatements greater than £6.6 million which have been corrected by management that were identified during the course of our audit

Our audit identified only a limited number of minor misstatements which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in both the Annual Accounts and Annual Report.

There are no adjusted differences that we need to bring to your attention.

There were no uncorrected misstatements.



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# Other reporting issues

### Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the Hampshire Pension Fund Statement of Accounts with the audited financial statements.

We have no matters to report in relation to the above.

#### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

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

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

## Other matters

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

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- · Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- · Going concern; and
- Consideration of laws and regulations.

We have no matters to report.





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## Assessment of Control Environment

### Financial controls

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

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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





# Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated February 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at **U**the meeting of the Audit Committee on 26 July 2018. age



# Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018. We confirm that we have not undertaken non-audit work outside the PSAA Code requirements

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s	£'s
Total Audit Fee - Code work.	31,743	31,743	31,743	31,743





# Audit approach update

We summarise below our approach to the audit of the Net Assets Statement and any changes to this approach from the prior year audit.

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

- Existence: An asset, liability and equity interest exists at a given date;
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date;
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items;
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded; and

Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

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Net Assets Statement category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Investment Assets and Liabilities	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Long term debtors	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A
Debtors	Substantively tested assertion all relevant	Substantively tested assertion all relevant	N/A
Cash in hand	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Creditors	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A



## Appendix B

# Summary of communications

Date	Nature Nature	Summary
8 February 2018	Meeting/Report	Senior Manager met with the Audit Committee to discuss focus areas of the audit this year, including communication of the change in the basis for materiality, which was noted by the committee.
22 May 2018 Meeting		Audit Committee – attended – no 2017/18 reports to present but available to discuss or comment on any matters raised by the Committee.
16 July 2018 Report		The Audit Results Report, including confirmation of independence, was issued to the Audit Committee.
26 July 2018	Meeting/Report	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the Audit Committee and senior members of the management team to discuss the audit results report.

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



## Appendix C

# Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement D ag e 8 2	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - 8 February 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - 8 February 2018
Significant findings from the audit	<ul> <li>Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Significant difficulties, if any, encountered during the audit</li> <li>Significant matters, if any, arising from the audit that were discussed with management</li> <li>Written representations that we are seeking</li> <li>Expected modifications to the audit report</li> <li>Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - 26 July 2018
Significant deficiencies in internal controls identified during the audit	► Significant deficiencies in internal controls identified during the audit.	Audit Results Report - 26 July 2018



		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:  ► Whether the events or conditions constitute a material uncertainty  ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements  ► The adequacy of related disclosures in the financial statements	Audit Results Report - 26 July 2018
Misstatements  Page	<ul> <li>Uncorrected misstatements and their effect on our audit opinion</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Material misstatements corrected by management</li> </ul>	Audit Results Report - 26 July 2018
Subsequent events	► Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report - 26 July 2018
Fraud	<ul> <li>Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:         <ul> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.



		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:  Non-disclosure by management  Inappropriate authorisation and approval of transactions  Disagreement over disclosures  Non-compliance with laws and regulations  Difficulty in identifying the party that ultimately controls the Authority	We have no matters to report.
Independence Page 84	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.  Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:  The principal threats  Safeguards adopted and their effectiveness  An overall assessment of threats and safeguards  Information about the general policies and process within the firm to maintain objectivity and independence  Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Results Report - 26 July 2018
External confirmations	<ul> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have no matters to report.
Consideration of laws and regulations	<ul> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or noncompliance with laws and regulations.



		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - 26 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	► Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - 26 July 2018
Additors report  O  O	► Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report - 26 July 2018
Fee Reporting	<ul> <li>Breakdown of fee information when the Audit Plan is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Plan - 8 February 2018 and Audit Results Report - 26 July 2018



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## Appendix D - Request for a management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead] [Date]

Maria Grindley Ernst & Young Apex Plaza Forbury Road Reading RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of Hampshire Pension ("the Fund") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

#### A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.

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## Appendix D - Request for a management representation letter (continued)

## Management Rep Letter

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

As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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



## Appendix D - Request for a management representation letter (continued)

## **Management Rep Letter**

#### C. Information Provided and Completeness of Information and Transactions

We have provided you with:

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

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

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

We have made available to you all minutes of the Audit Committee and Pension Fund Advisory Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.

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

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

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

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

## D. Liabilities and Contingencies

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

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

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

#### E. Subsequent Events

There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto



## Appendix D - Request for a management representation letter (continued)

## **Management Rep Letter**

#### F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Pension Fund Annual Report.

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

#### G. Independence

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

#### H. Derivative Financial Instruments

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

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

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

#### J. Actuarial valuation

The latest report of the actuary AON Hewitt as at 31 March 2018 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

#### L. Estimates

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

Accounting estimates recognised or disclosed in the financial statements:

- We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
- The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements



## Appendix D - Request for a management representation letter (continued)

## Management Rep Letter

### L. Investment managers' control reports ISAE 3402

The latest reports available do not all cover the whole of the 2017/18 audit year. We can confirm that we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

Yours faithfully,
(Chief Financial Officer)

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(Chair)

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer o your advisors for specific advice.

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#### HAMPSHIRE COUNTY COUNCIL

## Report

Committee/Panel:	Audit Committee
Date:	26 July 2018
Title:	Information Compliance - Use of Regulated Investigatory Powers
Report From:	Director of Culture, Communities and Business Services and Director of Transformation and Governance – Corporate Services

Julie Chambers - Trading Standards Team Manager (Legal &

**Contact name:** Compliance) and Peter Andrews – Head of Risk and Information

Governance

01962 833683 julie.chambers@hants.gov.uk

01962 847309 <u>peter.andrews@hants.gov.uk</u>

#### 1. Recommendations

Tel:

- 1.1. That the Audit Committee notes the contents of this report and that the County Council's surveillance powers continue to be exercised appropriately and proportionately.
- 1.2. The Audit Committee is also invited to consider the County Council's use of surveillance powers for the previous financial year and to provide the Executive Member for Policy and Resources with assurance that the County Council is operating its powers in a lawful and proportionate manner. Furthermore, the Audit Committee is invited to assure him of the continued use of surveillance powers by the County Council.

## 2. Summary

- 2.1. The purpose of this paper is to provide the Audit Committee with information on the instances that the County Council has used its investigatory powers in the last financial year, as required by the Code of Practice issued by the Home Office. It is also to provide assurance that the County Council uses its surveillance powers in a lawful and proportionate way.
- 2.2. This report confirms that there has been one use of surveillance powers and no applications for Communications Data in 2017-18.
- 2.3. The level of use of surveillance powers for 2017-18 is very low, continuing the trend seen in recent years.

#### 3. Contextual information

- 3.1. The County Council operates a strict control policy which ensures that only authorised surveillance takes place in accordance with the Regulation of Investigatory Powers Act 2000 (RIPA).
- 3.2. In June 2017 a report was presented to the Committee detailing the County Council's use of surveillance powers in 2016-2017. This report (in addition to any quarterly reports) presents information for the period 2017-2018. The last quarterly report to this Committee was 22 May 2018.
- 3.3. All applications for covert surveillance activity are coordinated through the County Council's Trading Standards Service (Legal and Compliance Team) as per the current County Council's RIPA policy. Only three senior officers within that service can act as authorising officer for the whole of the County Council. The responsibility for the governance of the Council's use of surveillance powers rests with the Council's Monitoring Officer.
- 3.4. In addition, there is a legal requirement for judicial approval, through a magistrate, of all authorisations under RIPA obtained by local authorities in accordance with the provisions of the Protection of Freedoms Act 2012. Since 1 November 2012 where Hampshire County Council has sought the required judicial approval of surveillance activity, it has been granted.
- 3.5. The County Council's use of surveillance powers is regularly subject to external inspection by the Investigatory Powers Commissioner's Office. This Office was formed in September 2017 as a result of the introduction of the Investigatory Powers Act 2016, and is an amalgamation of three separate commissioners. These were the Office of the Surveillance Commissioner; the Interception of Communication Commissioner's Office, and the Intelligence Services Commissioner. In his regulatory function, the Assistant Surveillance Commissioner reviews the County Council's use of directed surveillance, covert human intelligence source (CHIS), and CCTV systems under the Regulation of Investigatory Powers Act. In his last report in December 2017, the Assistant Surveillance Commissioner indicated his satisfaction with the County Council's application of its covert activities arrangements. He expressed the view that 'the County Council are taking their responsibilities under the legislation seriously, and that standards and approach are commendably high' and has recommended some minor changes for implementation for the future, which have been accepted, to make the County Council's procedures more robust and stand up to scrutiny.
- 3.6. The Trading Standards Service has adopted the Intelligence Operating Model (IOM) as a means of identifying suspicious activity for further investigation and, thus ensuring resources are used efficiently. The introduction of the IOM has contributed towards the decline in recent surveillance activity as the nature of investigations' identified have not warranted such techniques being used.
- 3.7. A number of changes to the way that local authorities are permitted to operate the powers within RIPA were made as part of the Protection of Freedoms Act, and those changes came into force on 1 November 2012. These restrict the use of such powers to the investigation of serious crime. This did not affect

- the County Council's use of these powers as in practice it already restricted its use of surveillance to these areas, for example, the sale of counterfeit goods, and alcohol and cigarettes to children.
- 3.8. Officers of the County Council's Trading Standards Service ensure that surveillance efforts are targeted towards protecting those who are being cheated by businesses that trade fraudulently, or unfairly treated by businesses that act with gross negligence towards their customers; particularly young, vulnerable or elderly customers. Such work is often done in response to complaints from members of the public, and in conjunction with the Police and UK Border Agency.
- 3.9. It should be noted that the use of surveillance is not the totality of any criminal investigation, but a small part of it, and that criminal investigations may not complete their passage through the criminal court process for many months, if not years after the surveillance activity has ceased.

The principal reasons for the use of surveillance are for prevention and detection of crime and not for criminal proceedings. As such, conviction rates, although excellent, are not the only measure of success (different methods of disposal such as letters of written warning, Simple Cautions and website takedowns are also justifiable indicators of RIPA usage).

The following table gives an indication of the results from the use of surveillance in the fight against counterfeit goods:

Table A

Year	Written	Convictions		Value of Fake
	Warnings	Simple	Prosecutions <sup>1</sup>	Goods Seized
	_	Cautions		in Year
2008-2009	6	5	2	£92,945
2009-2010	17	4	1	£87,790
2010-2011	15	3	8	£38,550
2011-2012	2	0	7	£38,750
2012-2013	1	0	5	£138,595
2013-2014	3	0	5	£149,195
2014-2015	0	0	5	£5,890
2015-2016	0	1	9	£80,835
2016-2017	1	0	2	0
2017-2018	1	0	0	0

Total £ 632,550

3.10. The approvals for surveillance for the period of April 2017 to March 2018 are shown in Appendix 1.

<sup>&</sup>lt;sup>1</sup> Subject to caveat that not all criminal proceedings will have completed and will include convictions and proceedings which may still be active

## 4. Value for Money

- 4.1. In the period of April 2017 to March 2018 all RIPA activity has been conducted by the Trading Standards Service which operates the IOM as a means of directing resources towards area of most harm and detriment being identified. The appropriate methodology for dealing with such investigations is individually assessed according to the circumstances and may utilise a variety of enforcement techniques; of which one may be surveillance. Having a range of enforcement techniques available ensures that only those which are necessary and proportionate are used and, accordingly are not used just because they can. Where there is no need to use surveillance, it isn't conducted.
- 4.2. It should also be borne in mind that surveillance activity of the nature governed by the RIPA framework would ordinarily, although not exclusively, occur in the earlier stages of any investigation. Due to the complex nature of some investigations the end result, in terms of any outcome, may not be seen for many months and usually not in the same financial year.
- 4.3. Whilst the number of authorisations for RIPA surveillance activity has dropped in recent years, this cannot be used as an indication of likely future use and as such, it is appropriate to ensure that future enforcement capability remains unaffected in order to ensure that the authority remains as efficient and effective as it can be. This is an approach that was supported by the Assistant Surveillance Commissioner in his most recent report, in December 2017.

## 5. Continued Use of Surveillance Powers

5.1. In order to continue to be able to use its surveillance powers under RIPA, the County Council must have a formal approved Policy on its use. This Policy must be reviewed and approved on an annual basis. The County Council's Policy on Surveillance (2017-2018) was presented and approved by the Executive Member for Policy and Resources in September 2017. A Policy for use in 2018/19 will be presented to the Executive Member for Policy and Resources in September 2018.

## 6. Use of Camera Systems

- 6.1. Although not covered under RIPA and subject to different regulations, the use of camera systems is also a form of surveillance. This part of the report provides the assurance that the County Council operates any such systems in a proportionate and lawful way.
- 6.2. The County Council does not operate the large scale high street CCTV monitored systems that may be found in a District or Unitary Authority, however, the Council does own and operate a small number of CCTV, ANPR (vehicle number plate recognition) and other camera systems in a variety of locations and for a number of purposes.
- 6.3. A Surveillance Camera Code of Practice has been introduced under the Protection of Freedoms Act 2012 which applies to the use of surveillance camera systems that operate in public places, regardless of whether or not

- there is any live viewing, or recording of images or information or associated data. The County Council is required to comply with the provisions of the Code.
- 6.4. The use of camera systems by the Council is subject to compliance with its Policy on the Use of Camera Systems, which was approved by the Council's Risk Management Board. This Policy contains the very latest guidance from the Surveillance Camera Commissioner.
- 6.5. The Policy provides a proportionate and common sense approach to meeting the regulatory standards and reassure the public that surveillance cameras in public places operated by Hampshire County Council are there to protect and look after them rather than look at them and are operated in a way which is proportionate, effective in meeting a stated purpose and transparent.
- 6.6. The County Council's use of camera systems is inspected and regulated by the Investigatory Powers Commissioner's Office.

## 7. Consultation and Equalities

- 7.1. Where a consultation has been undertaken insert an analysis of the consultation responses and refer to further details of the consultation which should be included in a separate appendix.
- 7.2. If equality impacts have been identified in the Equality Statement in integral Appendix B highlight any particular issues, explain any proposed mitigation and consider any other relevant factors that have been taken into consideration in formulating the recommendation. See the <u>Report Writing</u> Guide for more information.

### 8. Finance

8.1. This report will have no effect upon the budgetary position of Hampshire County Council.

#### 9. Performance

9.1. The recommendation sought ensures that the County Council continues to comply with the statutory Codes of Practice under RIPA.

#### 10. Conclusions

10.1. The County Council recognises that the use of covert surveillance as part of its investigatory activities may cause concern to the public and that it has a responsibility to ensure that its surveillance powers continue to be exercised appropriately and proportionately. It therefore has a robust process for authorisation and monitoring of all surveillance activities and only uses them in relation to the prevention and detection of crime; and where it is lawful, necessary and proportionate to do so.

10.2. Additionally, any activities are reviewed and the Policy on Surveillance is renewed every year, which is approved by the Executive Member for Policy and Resources.

## 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

#### **IMPACT ASSESSMENTS:**

## 11. Equality Duty

11.1. 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 disproportionally low.

### 12. Equalities Impact Assessment:

12.1. Race and equality impact assessment has been considered in the development of this report and no adverse impact has been identified

## 13. Impact on Crime and Disorder:

13.1. The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decision it makes on the prevention of crime. The County Council is only able to lawfully carry out covert surveillance activity on the grounds of prevention and detection of crime and disorder. By complying with RIPA and the statutory Codes of Practice this activity will be carried out without unlawfully contravening the requirements of the European Convention on Human Rights and the Human Rights Act 1998. All activity under RIPA will therefore assist the County Council, where it is both necessary and proportionate to do so, in its aim to prevent and detect crime.

## 14. Climate Change:

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

The activities reported within this report have no effect on climate change

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

The activities reported within this report have no effect on climate change

## **APPENDIX 1 - 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	С
1	0	0	0	
2	0	0	0	
3	0	0	0	
4	0	0	1	C
Total -			1	•

Description of "other"

Copyright infringement

# **Covert Human Intelligence Source** (CHIS)

Purpose of Surveillance C'feit Under Age Other Sales Goods Quarter 1 2 0 0 0 3 0 0

Copyright infringement

1

Total -

#### **Communications Data**

Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	0	0	
2	0	0	
3	0	0	
4	0	0	

Total -

### **Definitions:**

**Directed Surveillance** - An authorisation for Directed Surveillance will relate to an activity and, must be done in connection with an investigation and detection of crime or disorder e.g. the person is not aware surveillance is taking place and can be done using cameras, videos

**CHIS** - An authorisation is required where a person is required to covertly/secretly form a 'relationship' with the person/business under investigation for the purpose of obtaining information to further a criminal investigation e.g., face to face conversations, emails, telephone calls.

**Communications** - this is where a request can be made to a telecommunications supplier for subscriber data and service use data (not content) **and** only in relation to the prevention and detection of crime or disorder e.g. who is internet domain registered to, who is the subscriber to a particular telephone number.

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#### HAMPSHIRE COUNTY COUNCIL

## **Decision Report**

Decision Maker:	Audit Committee
Date:	26 July 2018
Title:	Internal Audit Annual Report & Opinion 2017-18
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Neil Pitman

Tel: 01962 845139 Email: Neil.pitman@hants.gov.uk

#### 1. Recommendation

1.1. That the Audit Committee approves the Internal Audit Annual Report & Opinion 2017-18 as attached.

## 2. Executive Summary

2.1. The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditors opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2018.

### 3. Contextual Information

- 3.1. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.
- 3.2. The Annual Report for 2017/18 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31 March 2018.
- 3.3. The Audit Committee's attention is drawn to the following points:
  - Internal audit was compliant with the Public Sector Internal Audit Standards during 2017/18;
  - The revised internal audit plan for 2017/18 has been substantially delivered; and
  - The County Council's framework of governance, risk management and management control is considered to be 'Adequate' and audit testing has demonstrated controls to be working in practice.

3.4. Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.

#### **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	26 July 2018	
Internal Audit Plan 2017-18	22 June 2017	
Direct links to specific legislation or Government Directives		
Title	Date	

## Section 100 D - Local Government Act 1972 - background documents

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

<u>Document</u>	Location
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 disproportionally 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:

- 3.1. How does what is being proposed impact on our carbon footprint / energy consumption? *No specific changes.*
- 3.2. 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.

### **Annual Internal Audit Report & Opinion**

2017 - 18

**Hampshire County Council** 



## Southern Internal Audit Partnership

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Assurance through excellence and innovation

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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 [the Standards – updated 2017].



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. Internal Audit Approach

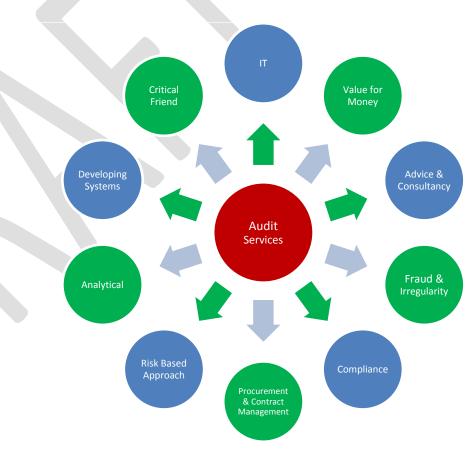
To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the County Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



### 3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Hampshire County Council's audit need that has been covered within the period

### **Annual Internal Audit Opinion 2017-18**

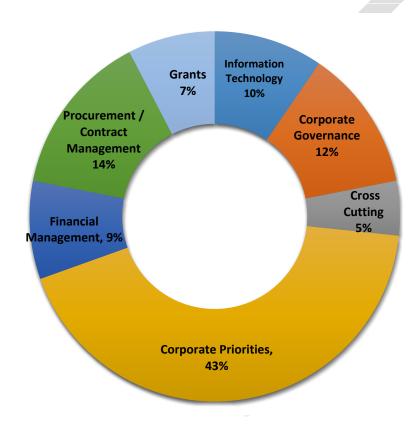
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire County Council's internal control environment.

In my opinion, Hampshire County Council's framework of governance, risk management and control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

### 4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council's activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2017-18 Internal audit plan, approved by the Audit Committee in June 2017, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

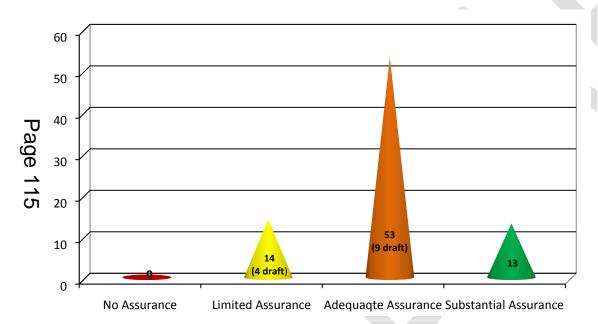
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 105 reviews during the year ending 31 March 2018.

The revised 2017-18 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 13 reviews, however, final reports have not yet been agreed;
- Fieldwork remains in progress in respect of 3 reviews (Integrated Reablement; Public Health (Quality & Performance Group); and Statutory Checks)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined 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 (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

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

<sup>\*22</sup> reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, assurance mapping, or grant certification or concluded with a position statement

### 5. Key Observations

There were no 'No Assurance' opinions issued during the year. In general internal audit work found there to be a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives, however, there were some common themes identified that provide challenge to the organisations risk environment:

Data Quality / Compliance - A contribution to a number of 'limited assurance' reviews within Adult Services found documentation within AIS to support process / procedures (including legislative requirements) was absent, incomplete, untimely or not consistently recorded (i.e. Direct Payments; Continuing Healthcare; Self Directed Support). Non-compliant behaviours provide an increased risk and can adversely impact the quality and integrity of management information in addition to leaving the County Council and its officers vulnerable and exposed to challenge.

Information Technology - Assurance across the IT environment is supported through compliance and accreditation to key industry standards including ISO27001, PSN and ITIL. Our work throughout the year however highlighted some risk exposures in relation to responsibilities and subsequently maintenance and monitoring of MySQL databases that sat outside of the corporate support model. Additionally review of the SAP infrastructure highlighted documentation to support the decision making process and procedures to update / patch the SAP environment were absent and as such lacked transparency leaving individuals vulnerable to challenge and a risk to business continuity.

Pre employment checks - Our review of pre-employment checks resulted in a limited assurance opinion. Whilst testing confirmed that the pre-employment checks requested by recruiting managers (in conjunction with HR advice) are being undertaken on prospective employees, a number of weaknesses were identified in the identification of what pre-employment checks should be undertaken, recording of DBS details and the setting-up of tasks for DBS re-checks in SAP. Linked SAP records for employees with multiple employments were not always updated with DBS check details. There are also opportunities to improve and expand documented guidance to ensure consistency of advice and that expectations for all pre-employment checks are clear.

**Business Continuity** – There is an up to date Corporate Business Continuity Management (Resilience) Strategy in place and a review of documentation confirmed that plans are in place and testing has been carried out for all COMAH (Control of Major Accident Hazards) sites across the County, in line with Health & Safety Executive Regulations. However, review of a sample of business continuity plans at a departmental level found a number of issues relating to a lack of completeness, authorisation and testing.

**Contract Management** – Whilst review of major contracts with assigned ownership and dedicated teams were found to be operating effectively, those contracts managed by officers alongside 'business as usual' responsibilities provided less rigour in the level of performance reporting / monitoring, increasing the risk of service delivery not achieving the necessary standards agreed and expected by the County Council.

**Risk Management** - It was apparent from our work conducted throughout the year that the organisation is both aware of and effectively manages risk as part of its 'business as usual' and decision making processes. However, an initiative to develop a system of assurance mapping across the Council, which sought to utilise corporate and departmental risk registers as a foundation, found risk registers to be at varying levels of maturity and completeness. Despite initiatives during the year for the registers to be updated they remain to be poorly maintained and are not currently used as a 'living document' in the delivery and management of Council services.

The County Council's Strategy for Managing Risk & Uncertainty was last reviewed in March 2016. It may be opportune in reviewing this strategy to consider how best to document and manage risk moving forward to ensure it provides a clear focus and acts as an effective management tool.

**GDPR** - A review was undertaken during the year providing adequate assurance on the planning and process by which the County Council was working towards compliance with the new GDPR requirements. A further review of compliance with the GDPR will be undertaken during 2018/19 following the 25<sup>th</sup> May 2018 on which date the regulations are enacted.

### 6. Anti Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services.

A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image. Policies and strategies are in place setting out the County Council's approach and commitment to the prevention and detection of fraud or corruption.

An overview of Internal Audit activity and delivery of the Annual Fraud Plan 2017/18 is provided in the Annual Fraud Report 2017-18.

### 7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

"It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are no instances across these standards where we determined a standard below "generally conforms", and 4 instances where the standard is assessed as "not applicable" due to the nature of SIAP's remit."

In accordance with PSIAS, annual self assessment have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

#### 8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires 'an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation' I can confirm endorsement from the Institute of Infernal Auditors that:

'the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards'

There are no disclosures of Non-Conformance to report.

### 9. Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2017-18 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

### 10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators				
Aspect of service	2016-17 Actual (%)		2017-18 Actual (%)	
Revised plan delivered (including 2016/17 c/f)	97	$\longleftrightarrow$	97	
Positive customer responses to quality appraisal questionnaire *	96	$\leftrightarrow$	96	
Compliant with the Public Sector Internal Audit Standards	Yes	$\longleftrightarrow$	Yes	

<sup>\*</sup>Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including Members, senior officers, key contacts and SIAP staff. 17/18 actual are based on a February 2017 questionnaire



### 11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Hampshire County Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman Head of Southern Internal Audit Partnership June 2018

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### HAMPSHIRE COUNTY COUNCIL

### **Decision Report**

Decision Maker: Audit Committee	
Date:	26 July 2018
Title:	Annual Fraud Report 2017-18
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Neil Pitman

Tel: 01962 845139 Email: Neil.pitman@hants.gov.uk

### 1. Recommendation

1.1. That the Audit Committee notes the Annual Fraud Report 2017-18 as attached.

### 2. Executive Summary

2.1. The purpose of this paper is to provide the Audit Committee with an overview of reactive and proactive counter fraud activity undertaken by internal audit for the period ending 31 March 2018.

### 2. Contextual information

- 2.1. The CIPFA Code of Practice on Managing the Risk of Fraud & Corruption sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response.
- 2.2. It is these principles that underpin the Southern Internal Audit Partnership's approach to support the management of the risk of fraud and corruption within Hampshire County Council.
- 2.3. In accordance with the CIPFA Code of Practice an annual report (attached) is presented to provide those charged with governance an overview of counter fraud activity during the year ending 31 March 2018.
- 2.4. The annual report also outlines proposed initiatives for 2018-19.

### **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	no			
lives:				
People in Hampshire enjoy a rich and diverse	no			
environment:				
People in Hampshire enjoy being part of strong,	no			
inclusive communities:				
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	26 July 2018		
Direct links to specific legislation or Government Directives			
Title	Date		

### Section 100 D - Local Government Act 1972 - background documents

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

<u>Document</u>	Location
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;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally 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.



### **Annual Fraud Report**

2017 - 18

**Hampshire County Council** 



# **Southern Internal Audit Partnership**

Assurance through excellence and innovation

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#### 1. Forward

Leaders of public service organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

Published in October 2014, the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response.

It is these principles that underpin the Southern Internal Audit Partnership's approach to support the management of the risk of fraud and corruption within Hampshire County Council.



Hampshire County Council promotes a zero tolerance culture to fraud and corruption:

'The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services....The Council will seek to create a zero tolerance culture to fraud and corruption...' (HCC - Anti Fraud & Anti Corruption Policy Statement)

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of fraud and corruption (Anti Fraud & Corruption Strategy and Response Plan; Whistleblowing Policy and Anti Bribery Policy).

Counter-fraud activity during the year has delivered a programme of proactive and reactive work to complement the internal audit strategy and annual plan focusing resource against assessed fraud risks in addition to new and emerging threats.

### 2. Reactive Fraud Activity

The Southern Internal Audit Partnership work with Hampshire County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews will be undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council's Anti Fraud & Corruption Policy and Response Plan.

Recent history has demonstrated that given the size and diversity of the organisation, relatively low levels of activity have been required in respect of reactive fraud work in Hampshire County Council.

Analysis is provided (fig. 1) highlighting the fraud types that have been subject to internal audit referral/ investigation across Hampshire County Council over the last two years. It should be acknowledged that the figures relate to areas of investigation and not proven fraud.

Many of the 'fraud types' evident in the table are reflective of national trends and as such are not issues unique to Hampshire County Council.

Туре	16/17	17/18
Procurement	2	
Theft	6	6
P-Card	1	1
False Representation	2	1
Care Charges	4	2
Cyber	2	1
Total	17	11

Fig.1

Where relevant, referrals have been made to the police and we continue to assist them where appropriate with their investigations.

### 3. Proactive Approach

Whilst the established process to reactive fraud assists the Council in responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are appropriately explored to understand, prevent and detect fraud risks across the organisation. Initiatives and subsequent outcomes during the year included:

**Compliance against the CIPFA Code** – During the year we have conducted a self assessment of the organisations arrangements against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. We are satisfied that in all material respects the organisation operate in accordance with the Code of Practice, however, an action plan is in place (Appendix 1) to stimulate improvement in identified areas of existing practice.

**Schools Fraud Health Check** – A combination of face to face interviews and questionnaires were used to assess fraud awareness and control across a sample of maintained schools. The health check was modelled on key areas of fraud risk exposure attained from a national analysis of reported frauds within schools compiled by Mazars coupled with our own understanding and knowledge of fraud risk exposures.

In total 50 schools were contacted and generally responses were found to provide a reasonable level of assurance that the framework of controls and governance maintained were working effectively. However, there were a number of areas of commonality identified for improvement which have been disseminated to all schools across the County. Such improvements include effective review and maintenance of key policies and procedures, building/ site access and receipt and secure retention of assets.

Security of Cash & Assets – A thematic review was undertaken across a sample of schools and Council establishments to assess security arrangements in place with regard income and equipment held. Areas of weakness common across each of the establishment types included, secure retention of cash (safe limits exceeded/ insecure retention & access); retention of inventories and secure marking of assets; CCTV coverage and maintenance; and assets disposal. Key findings have been appropriately disseminated to all relevant establishments.

**Data Analytics** - Through benchmarking with peers across fraud networking groups, coupled with review of national publications it was acknowledged that there had been significant success from the outcomes of investigations of ongoing direct payment and private residential care payment matches against the deaths register prompting the redemption of accumulated overpayments.

In addition to the bi-annual data matching exercise through the NFI, a rechecking facility is offered by the Cabinet Office. To facilitate this review and ensure the most up to date and timely information was available internal audit requested an updated match of the Councils direct payments and private residential care payments against the DWP death register.

**Private Residential Care Payments** - The recheck report on residential care payments identified 49 positive matches against the register of deaths. Review of these matches has established in 26 cases (53%) there was a financial consequence to the authority through continuing to make payments to providers for care that was no longer being supplied. For these cases, analysis confirmed that a total of £143,705.27 was required to be recovered from care providers.

The causes for payments continuing to be paid after death were:

- Late notification from the care home of the death of a client (7 of 26)
- Failure of a care home to notify of the death of a client (17 of 26)
- Failure of HCC staff to update AIS appropriately following notification of a death (2 of 26)

Given the findings from our recheck exercise we explored further with Adult Services the extent of checking undertaken on the NFI match reports released in 2017. It would appear that checks extended only to whether AIS had a date of death entered. No further work beyond this was undertaken.

Whilst the NFI will generate a match report where a date of death is absent on AIS, it will not identify instances whereby there has been a delay in inputting the date of death into AIS. Any delay in updating AIS provides the potential for an overpayment to be generated.

As an addition to the basic NFI match report a bespoke report was run (by Adult Services) from AIS detailing where there was differential (of more than 1 day) between actual date of death and date AIS was updated. The report generated a list of 740 cases where a variance was evident ranging from 1 to 801 days

As part of this review internal audit have undertaken an analysis of the top 20 time delayed cases and 8 others from this report and have confirmed that in each case an overpayment has been incurred and that the total overpayments due to be recovered from providers for these cases is £146,449.30.

We cannot provide an exact overpayment figure across the whole population of 740 cases, however applying a conservative weekly average figure of £500 (Paying For Care estimate the weekly average is £583, without nursing costs), to the 202 cases (exceeding 14 days delay in updating AIS), the total recoverable figure due could be in the region of £1m.

**Direct Payments** - The recheck report on direct payments identified nine positive matches against the register of deaths suggesting that further investigation would be beneficial.

Of these nine, one was confirmed as a death which the Council were unaware of. The claimant died in December 2017 and as of 19 February 2018 the Council were still paying the direct payment. On further review the direct payment account also had a substantial balance and as such Adults are now looking to reclaim £18,304.37.

**Joint Working Initiatives** – Following receipt of a joint correspondence from the DCLG and DWP in October 2017 Hampshire County Council completed an expressions of interest in an initiative to work with Government to more efficiently and effectively fight local fraud and corruption.

The initiative builds on DWP's work with council fraud teams, on joint criminal fraud investigations of the Council Tax Reduction Scheme (CTRS) and Social Security benefit fraud within Unitary and Tier 2 councils.

DWP's Joint Working project team continue to develop the principles of including other types of local authority (incl. county council payments) within joint criminal fraud investigations and work is underway to establish the extent of data sharing and disclosure allowed under existing legislation in order to expand the scope further.

We look forward to working with colleagues across Government throughout 2018/19 as initiatives and opportunities present.

**National Fraud Initiative (NFI)** - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Public sector bodies are required to submit data to NFI on a regular basis (every two years). The last NFI data upload was carried out in October 2016 with match reports received and disseminated to key contacts in January 2017. The outcomes of NFI work across Hampshire County Council is summarised below:

Dataset	Recommended Matches	Matches Reviewed	Fraud/ irregularities Identified	Value (£)	Recovered (£)
Pensions	763	1,521	0	0	0
Payroll	258	212	0	0	0
Blue Badges	1,841	900	600	345,000*	N/A
Concessionary Travel	5,706	6,490	5,708	137,000**	N/A
Procurement – Companies House	87	26	1	0	0
<b>Private Residential Care Homes</b>	106	106	0	0	0
Insurance Claimants	0	4	0	0	0
Personal Budgets	57	57	0	0	0
Creditors	3,716	297***	0	0	0
VAT	106	120	4	2,300	2,300
Total	12,640	9,733	6,313	484,300	2,300

<sup>\*600</sup> blue badges were cancelled from the database. Although no fraud was identified, Cabinet Office assigns a notional value of £575 per badge saved to the public purse based on parking income forgone.

A further NFI data upload will be carried out in October 2018 and new match reports available for review in January / February 2019. Service areas will continue to work on existing matches received from the 2017match reports that have yet to be reviewed.

<sup>\*\*5,708</sup> concessionary travel passes were cancelled from the database. Although no fraud was identified, Cabinet Office assigns a notional value of £24 per pass saved to the public purse based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme.

<sup>\*\*\*</sup> in agreement with the NFI testing restricted to 297 matches as investigation provided no evidence of duplicate payments instead was a results of the manner Internal Account Transfers are administered and the original data was captured.

**Training** – A number of training and awareness sessions were held throughout the year to update, appraise and inform staff on key aspects of fraud and irregularity both generally and pertinent to their role. Training during the year covered:

- Money Laundering;
- Mandate Fraud;
- Whistleblowing; and
- Cyber Security

### 4. Ongoing initiatives

We have maintained a number of initiatives throughout the year to ensure internal audit remains responsive to the fraud needs of the County Council and maintain consistently high standards:

- Fraud Awareness Bulletin's, providing oversight of emerging fraud risk threats and advice;
- Completion and receipt of outcomes from the CIPFA Fraud Survey;
- Compliance with the Public Sector Internal Audit Standards;
- Assessment against compliance with the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption;
- Discharge responsibilities within the Council Whistle blowing policy

### 5. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Hampshire County Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman Head of Southern Internal Audit Partnership June 2018

### Appendix 1

### Self-Assessment – CIPFA Code of Practice on Managing the Risk of Fraud & Corruption – ACTION PLAN

Requirement	Status	Action	Responsible Officer	Target Date
There is a current statement from the Leadership team that identifies the specific threats of fraud and corruption faced by the organisation.	Partially	The existing Fraud & Corruption Strategy is signed and endorsed by the Chief Executive and the Leader of the Council. The Fraud & Corruption Strategy and Policy are reviewed annually and updated as appropriate. However, the Strategy and Policy were last formally approved by the Audit Committee in 2013.	Neil Pitman, Head of Southern Internal Audit Partnership	November 2018
		Action: to review and represent the Fraud & Corruption Strategy for approval to Senior Management and the Audit Committee		
The organisations risk management policy includes reference to risks arising from fraud and corruption and guidance on how the risks should be assessed.	No	The County Council's Strategy for Managing Risk & Uncertainty 2016-2020 is a deliberately high level document that does not currently make specific reference to fraud and corruption.	Neil Pitman, Head of Southern Internal Audit Partnership	September 2018
		<b>Action:</b> to liaise with the Corporate Risk Manager to assess how best to incorporate reference the risk of fraud and corruption and the assessment thereof into existing risk management guidance and support.		

### **Counter Fraud Plan 2018-19**

Review	Scope
Proactive Reviews	
Training & Awareness	To facilitate training in key areas fraud risk, policy and process. Focus during 18/19 to review and update corporate E-Learning and targeted Bribery Act Training.
Procurement Cards & Petty Cash	Use of data analytics to identify irregular / excessive use and potential duplicate claims.
Blue Badges	To review arrangements for the administration and on-going due diligence of Blue Badges to ensure legitimacy of recipient and effective maintenance/ cancellation.
National Fraud Initiative	To facilitate engagement in the 2018 National Fraud Initiative. Uploads scheduled for October 2018 with results available for dissemination and review in February 2019.
Anti Fraud & Corruption Policy / Strategy Review	To review and update the existing policy and strategy for endorsement by Senior Management and the Audit Committee.
Benchmarking (CIPFA survey)	Asses to performance and outcomes of counter fraud activity for the County Council against national trends and averages.
Networking Groups (South East Hub / Hampshire Fraud Group)	Maintain awareness of new initiatives and emerging fraud risks. Additionally to seek opportunities for joint any working initiatives.
Reactive Reviews	
Investigation(s)	As notified to the fraud team either through Whistleblowing Policy, Manager referral or through internal audit testing / reviews.

### HAMPSHIRE COUNTY COUNCIL

### **Decision Report**

Decision Maker: Audit Committee	
Date:	26 July 2018
Title:	Internal Audit Plan 2018-19
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Neil Pitman

Tel: 01962 845139 Email: Neil.pitman@hants.gov.uk

#### 1. Recommendation

1.1. That the Audit Committee is invited to comment on and approve the Audit Plan for 2018 – 2019

### 2. Executive Summary

2.1. The purpose of this paper is to provide the Audit Committee with an overview of the Internal Audit Plan 2018 – 2019 (Appendix 1).

### 3. Contextual Information

- 3.1. The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:
  - The framework of internal control, risk management and governance is appropriate and operating effectively; and
  - Risks to the achievement of the County Council's objectives are identified, assessed and managed to a defined acceptable level.
- 3.2. The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.
- 3.3. Internal audit focus should be proportionate and appropriately aligned, as such, only high and medium priority reviews are incorporated within the Internal Audit Plan.
- 3.4. All low priority review areas remain within the audit universe and are reassessed on an annual basis, however, will not be routinely incorporated in the planning process if continued to be assessed as a low priority.

- 3.5. The audit plan will remain fluid to ensure internal audits ability to react to the changing needs of the County Council.
- 3.6. Other reviews, based on criteria other than risk, may also be built into the work plan. These may include 'mandatory' audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance

### 4. Finance

- 4.1. Our 'internal audit charter' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion.
- 4.2. Significant matters that jeopardise the delivery of the plan, or require changes to the plan are identified, addressed and reported to the Audit Committee.

### 5. Performance

- 5.1. The internal audit team have adopted a matrix style approach to enable the delivery of the plan, by using a resource pool of multi disciplinary auditors capable of forming into teams as audit projects determine.
- 5.2. This approach will ensure seasonal peaks in demand can be effectively managed, an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise.
- 5.3. The Audit Plan 2018 19 has been developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's objectives.
- 5.4. The endorsement and sponsorship of the plan at member / chief officer level will assist in providing the engagement and buy-in of staff at an operational level to ensure the outcome of audit reviews are optimised.

### **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	no		
lives:			
People in Hampshire enjoy a rich and diverse	no		
environment:			
People in Hampshire enjoy being part of strong,	no		
inclusive communities:			
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:		
Title	Date	
Internal Audit Charter	26 July 2018	
Direct links to specific legislation or Government Directives		
Title	Date	

### Section 100 D - Local Government Act 1972 - background documents

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

<u>Document</u>	Location
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;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally 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 Plan** 

2018-19

**Hampshire County Council** 



# Southern Internal Audit Partnership

Assurance through excellence and innovation



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#### Introduction

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

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

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business, activities, systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the County Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant stakeholder(s), to ensure it continues to reflect the needs of the County Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of the County Council.

#### **Your Internal Audit Team**

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Neil Pitman, Head of Southern Internal Audit Partnership, supported by Karen Shaw as Strategic Lead and Iona Bond, Amanda Chalmers, Laura English, Liz Foster, and Nat Jerams, Audit Managers.



#### Conformance with internal auditing standards

The Southern Internal Audit Partnership is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2015 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

An external assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

ere are **no instances** across these standards where we determined a standard below "generally conforms", and 4 instances where the standard is assessed of "not applicable" due to the nature of SIAP's remit.

In accordance with PSIAS, on-going self-assessment confirms that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

#### **Conflicts of Interest**

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

#### **Council Risk**

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The County Council have a clear framework and approach to risk management. The strategic risks assessed by the County Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives. We will monitor the strategic risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape.

#### Developing the internal audit plan 2018/19

We have used various sources of information and discussed priorities for internal audit with members of all departmental management teams as well as their management groups and other key contacts as appropriate.

Based on conversations with key stakeholders, review of key corporate documents and risk registers, and our understanding of the organisation the Southern Internal Audit Partnership have developed an annual audit plan for the coming year.

The County Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance is obtained.

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#### **Shared Services**

Services provided under the shared service arrangements with Hampshire Constabulary, the Office of the Hampshire Police and Crime Commissioner and Hampshire Fire and Rescue Service continue to be reviewed via a joint internal audit plan that provides assurance to all parties to avoid duplication of effort. All three organisations contribute audit days to this plan which is also reported below for information. An internal audit protocol for this work has been agreed with partner and shared services management

#### **Hampshire County Council Internal Audit Plan 2018-19**

Audit	Audit Sponsor	Strategic / Directorate Risk Reference	Audit Needs Assessment	Scope
Corporate Cross Cutting				
Traded services	DCCBS	HCC0006	Н	Governance arrangements for traded services and the cost / pricing model for income generating initiatives
Transformation	DTG	HCC0006; AS0015; AS0012; CO020003	Н	Progress over the governance and delivery of T2019 savings and initiatives.
Information management	DTG	ET0022; AS0011; PH0010; CC0008; CO020014	Н	Data handling and Freedom of Information
Business Continuity/emergency planning	DTG	ET0027; AGS	Н	Adequate arrangements are in place in respect of business continuity and emergency planning.
Health and Safety	DTG	AS0003	Н	Review of new processes and follow up actions arising from the previous review.
Capital programme	DCE&DCR	ET0013	М	Management and effective delivery of a sample of capital projects.
Hantsdirect -service standards	DCE&DCR	-	М	Assurance over the achievement of service standards.
Information security	DCE&DCR	ET0022; AS0011; PH0010; CC0008; CO020014	н	Arrangements in place to ensure the confidentiality, integrity and availability of corporate information.
Local management of shared services processes	CE	-	Н	Client side application of shared service activities which remain with HCC staff.

Assurance through excellence and innovation

Audit	Audit Sponsor	Strategic / Directorate Risk Reference	Audit Needs Assessment	Scope
GDPR	DTG	ET0022; AS0011; PH0010; CC0008; CO020014	Н	Review of GDPR compliance.
Prevent	DCS	HCC0002; CS0006; AS0008	М	Arrangements to ensure the Council's responsibilities under the Government's Prevent strategy are undertaken.
Corporate Governance				
Risk Management	DTG	AGS	Н	To review the effectiveness of the corporate risk management strategy/policy
Reactive / Proactive Fraud	DCE&DCR	-	М	Delivery of Fraud Plan
Annual Governance Statement	DTG	Mandatory	Mandatory	Review & contribute to the Annual Governance Statement
Annual self assessment again internal audit Standards	DCE&DCR	Mandatory	Mandatory	In accordance with the requirements of the Public Sector Internal Audit Standards
HR time recording	DCE&DCR	-	М	Advice on time recording and monitoring arrangements within HR.
Information Technology				
SAP	DCE&DCR	HCC0009	Н	Review of framework and capacity.
IT Asset management	DCE&DCR	HCC0009	М	Review of IT asset management arrangement (acquisition, recording, disposal).



**Strategic / Directorate Audit Needs** Scope **Audit Sponsor Audit Risk Reference Assessment** To review arrangements in place for patch IT operating systems DCE&DCR HCC0009 Н management. Wireless security Review of wireless security following DCE&DCR HCC0009 Н changes. Annual summary of all the forms of Assurance mapping DCE&DCR HCC0009 Μ assurance around IT. Hosted Schools Services (HSS) HCC0009 Review of the new model of services for DCE&DCR Μ schools. T IT Business continuity & disaster HCC0009 Review of the arrangements in place for IT DCE&DCR Н 'age business continuity and disaster recovery. recovery HCC0009 Н PCI compliance testing to support the self DCE&DCR PCI compliance testing 50 assessment process. Application reviews of Swift/AIS, Confirm, **Business applications** DCE&DCR HCC0009 Н and C4C, covering cloud and other applications. Testing to support self-assessment. ISO27001 DCE&DCR HCC0009 Н Cloud DCE&DCR HCC0009 Μ To review arrangements for governance of Cloud Corporate Objective - Hampshire safer and more secure for all Safeguarding - Children To review the ongoing internal and CS0003 DCS Н external assurances that the department receive for the safeguarding of children.

Audit	Audit Sponsor	Strategic / Directorate Risk Reference	Audit Needs Assessment	Scope
School thematic review - part time timetables	DCS	CS0004	M	Review a sample of schools and disseminate key risks / actions to all establishments.
School thematic review - school website content	DCS	CS0004	M	As above
School thematic review - GDPR Compliance	DCS	CS0004	Н	As above
School thematic reviews - TBC	DCS	CS0004	-	As above
Children's establishments - thematic – spend and budgetary control	DCS	-	M	Review a sample of schools and disseminate key risks / actions to all establishments.
Reactive - Schools/establishments	DCS	CS0004	Н	Full reviews of individual schools based on discussions with relevant stakeholders.
School Financial Value Standards	DCE&DCR	-	Mandatory	To review the SFVS responses received and sample check of answers / supporting prior to DfE deadline.
Home to school transport	DCS		Н	Follow up review of processes and controls over the provision of the Home to School Service ensuring the safe transit of eligible children.
Use of Agency Staff	DCS		Н	High area of spend. Review to look at usage and rationale.
Early years	DCS		М	Review of census process and returns.

**Strategic / Directorate Audit Needs** Scope **Audit Sponsor Audit Risk Reference Assessment Corporate Objective - Maximising wellbeing** AHC - Thematic Review DAH&C AS0003 Н To review a sample of establishments and disseminate key risk and actions to all Health and Safety relevant parties. DAH&C AHC - Thematic Review AS0008 Н As above. **Medicine Control** DAH&C AS0008 AHC - Thematic Review M As above. Clients property/monies AHC - Thematic Reviews DAH&C Μ As above. **FNC** Assessments Charge scale investigations To review how investigations are handled Н DAH&C AS0008 and what reflection/learning takes place after them. Public Health - Statutory Duties / PH0006; PH0008; PH0009 Review of the statutory duties and DAH&C Н **Mandated Services** mandated services for Public Health to ensure they are being fulfilled. Integrated community equipment To look at the new stock system, DAH&C M specifically regarding the cleaning of store and Technicians Service stock. DAH&C Н To review and assess the rollout of Care at Care at Home AS0020 Home. Multi Agency Safeguarding Hub DAH&C AS0022 Н Ensure MASH is fulfilling its statutory role (MASH) following service reorganisation service

**Strategic / Directorate Audit Needs** Scope **Audit Sponsor Audit Risk Reference Assessment** Review of Info Governance processes in Information Governance DAH&C AS0011; AGS Н place for the AHC department. Advice/consultancy days Critical friend/advice on key DAH&C projects/transformation areas in consultation with DMT. Case loads / waiting lists DAH&C Н A review of caseloads, timescales and AS0018 worklists. Efficiency & effectiveness of customer journey. **Approved Mental Health** To review the approval and warranting DAH&C Μ Professionals - Approval and process for AMPS Warranting Process

Mental Health - Mar Mental Health - Management of Review of the process for "nearest DAH&C Μ → Nearest Relative relative" for Mental Health clients. S ω Mental Health Management of Review of compliance against policy. DAH&C Н Guardianship County and Local Support Plan To review the County and Local Support DAH&C Μ Plan Oversight Groups processes following **Oversight Groups** new changes implemented at the start of 18/19 To review the progress with the **Brokerage Team** AS0017; AS007; AS008 DAH&C Н improvement plan and the timeliness of arranging provisions. Payments to providers New payments process for providers. DAH&C AS0020; AS0014 Н

**Strategic / Directorate Audit Needs** Scope **Audit Sponsor Audit Risk Reference Assessment** Corporate Objective - Enhancing our quality of place Review of the developer's contributions **Developer contributions** DETE ET0002 Н collection process Traffic management Review of the governance arrangements DETE Μ for planning and managing Traffic Safety **Management Schemes** Local Bus Subsidy Support DETE Μ Review of de-commissioning of Local Bus Subsidy Support. Page DETE Regeneration Μ Follow up review of Daedalus Regeneration site, including monitoring of take-up and receipts due and collected. M3 Enterprise LEP (Accountable DETE ET0008 Μ Review of the Accountable Body **Body Arrangements)** Arrangements of the M3 Enterprise LEP. **Economic Development (Key Sites** DETE Μ Review of the project to refresh the key Portfolio) sites portfolio records Business units - Hampshire DETE Μ **Review of Hampshire Transport Transport Management** Management **Business units - County Supplies** DETE Μ Review of customer contract management processes within County Supplies. Property management **DCCBS** CC0009; CC0012; CC0017 Н Review of property management arrangements for schools

**Strategic / Directorate Audit Needs** Scope **Audit Sponsor Audit Risk Reference Assessment Procurement and contract management** Contract management thematic DCE&DCR AGS Μ Effectiveness of contract management review - Corporate Resources arrangements for a sample of contracts not covered by individual reviews. DETE Street lighting Н To review the street lighting maintenance arrangements Superfast Broadband programme. DETE Н Review of the management of the Superfast Broadband Programme DETE **Intelligent Transport System** Μ Review of contract management Pa arrangements **Highways Service Contract** DETE Н Review of contract management arrangements OI Contract management thematic Effectiveness of contract management **DCCBS AGS** Μ review - CCBS arrangements for a sample of contracts not covered by individual reviews. Н **Review of Term Maintenance contract** Term maintenance Contract DETE management arrangements Minor Works Framework **DCCBS** Н Review of Minor Works Framework contract management arrangements Hampshire Highways Service DETE ET0024 Μ Review of end of year finance Contract (Finance) arrangements of HHSC Contract Administration -**DCCBS AGS** Н Review of contract administration **Property Services** processes within Property Services.

Audit	Audit Sponsor	Strategic / Directorate Risk Reference	Audit Needs Assessment	Scope
Grant/non-assurance work				
Reading Hampshire Property Partnership	DETE	-	М	-
HCC Local Transport Capital Block Funding (including pot hole funding)	DETE	Mandatory	Mandatory	As per grant certification
Disabled Facilities Grant - 18/19	DETE	Mandatory	Mandatory	As per grant certification
Bus Rapid Transit	DETE	Mandatory	Mandatory	As per grant certification
Safer Roads Fund (A27)	DETE	Mandatory	Mandatory	As per grant certification

Audit	Audit Sponsor	Strategic / Directorate Risk Reference	Audit Needs Assessment	Scope
Total Days			2175	

Chief Executive	CE
Deputy Chief Executive & Director of Resources	DCE&DCR
Director of Adults', Health & Care	DAH&C
Director of Transformation & Governance	DTG
Director of Children's Services	DCS
Director of Economy, Transport & Environment	DETE
Director of Culture, Communities & Business Services	DCCBS

# Page 157 Shared Services Internal Audit Plan 2018-19

Audit	Risk	Scope
Financial Systems		
Payroll		
Order to cash (OTC)	Coverage to meet external audit	/ regulatory requirements
Purchase to pay (P2P)		

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Risk	Scope
Governance arrangements continue to evolve and will do so further with the pending introduction of new partners.	Review of changes / continued effectiveness since the last audit in 2015/16.
User access is not appropriately controlled enabling unauthorised access to data and potential issues with regard segregation of duties.	Review access permissions against roles and ensure effective management for starts / leavers.
Recruitment processes are not sufficiently robust and timely to meet needs of the recruiting organisation.	Emphasis on changes to recruitment processes scheduled in February / March 2018 designed to streamline the process for non safeguarding roles. To include internal recruitment.
Uncoordinated and inefficient approach to development needs.	To review governance and controls around commissioning (emphasis on training).
Processes are not sufficiently robust to ensure accurate and timely processing.	To review the revised processes in place to manage ill health retirement and death in service.
Inaccurate and untimely submission and processing of	To review data input and data accuracy relating
	Governance arrangements continue to evolve and will do so further with the pending introduction of new partners.  User access is not appropriately controlled enabling unauthorised access to data and potential issues with regard segregation of duties.  Recruitment processes are not sufficiently robust and timely to meet needs of the recruiting organisation.  Uncoordinated and inefficient approach to development needs.  Processes are not sufficiently robust to ensure accurate and timely processing.

Audit	Risk	Scope
	sickness data .	to sickness and reduction to half / zero pay.
IR35	Non compliance with recent legislative changes.	To review compliance with IR35 legislation.
Occupational Health	Untimely outcomes and lack of joined up approach between managers, HR & OH with a lack of focus on business outcomes.	To commission a clinical audit of the service to maintain patient confidentiality and expert input.
Procurement		
Category management	Ineffective approach and management of product / service categories	Review of procurement categories each year on rotation.
Procurement (General)	Non compliance with EU Regulations and Contract Procedure Rules.	To review procurement processes (£100k +).
Other		
Master Data Team	Ineffective change control	Robustness of controls and compliance for changes made by the master data team.
Contingency		On-boarding of new partners.
Management	Planning, liaison, repo	orting, action tracking, external audit liaison, advice



Audit	Risk	Scope
Total Days		370

#### HAMPSHIRE COUNTY COUNCIL

#### **Decision Report**

Decision Maker:	Audit Committee
Date:	26 July 2018
Title:	Internal Audit Charter 2018-19
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Neil Pitman

Tel: 01962 845139 Email: Neil.pitman@hants.gov.uk

#### 1. Recommendation

1.1. That the Audit Committee approve the Internal Audit Charter 2018-19 as attached.

#### 2. Executive Summary

2.1. The purpose of this paper is to present the Internal Audit Charter 2018-19 to the Audit Committee in accordance with the requirements of the Public Sector Internal Audit Standards, as the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

#### 3. Contextual Information

3.1. The Accounts and Audit (England) Regulations 2015 state:

'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking into account public sector internal auditing standards or guidance'

- 3.2. The Public Sector Internal Audit Standards (attribute standard 1000) require that all internal audit activities maintain an 'internal audit charter'.
- 3.3. The charter is a formal document that defines the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

- 3.4. The internal audit charter establishes internal audits position within the organisation including:
  - Recognising the mandatory nature of the Public Sector Internal Audit Standards:
  - Defining the scope of internal audit responsibilities;
  - Establishing the responsibilities and objectives of internal audit;
  - Establishing the organisational independence of internal audit;
  - Establishing accountability and reporting lines (functional and administrative);
  - Setting out the responsibilities of the board and the role of statutory officers with regard to internal audit;
  - Arrangements that exist with regard anti fraud and anti corruption;
  - Establishing internal audit rights of access;
  - Defining the terms 'board' and 'senior management' for the purpose of internal audit; and
  - Arrangements in place for avoiding conflicts of interest.
- 3.5. In accordance with the Standards the internal audit charter should be reviewed annually (minimum) and approved by senior management and the board.

#### **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	no		
lives:			
People in Hampshire enjoy a rich and diverse	no		
environment:			
People in Hampshire enjoy being part of strong,	no		
inclusive communities:			
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:		
Title	Date	
Internal Audit Charter	22 June 2017	
Direct links to specific legislation or Government Directives		
Title	Date	

#### Section 100 D - Local Government Act 1972 - background documents

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

<u>Document</u>	Location
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 disproportionally 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:

- 3.1. How does what is being proposed impact on our carbon footprint / energy consumption? *No specific changes*.
- 3.2. 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.



#### **Internal Audit Charter**

#### Introduction

The Public Sector Internal Audit Standards, which took effect from the 1 April 2013, provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The 'Standards' form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes the mission; core principles; definition of internal audit; and Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'.



The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

#### **Mission and Core Principles**

The IPPF's overarching 'Mission' for internal audit services is:

'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'

The 'Core Principles' that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Demonstrate competence and due professional care;
- o Be objective and free from undue influence (independent);
- o Align with the strategies, objectives and risks of the organisation;
- o Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- o Be insightful, proactive, and future-focused; and
- o Promote organisational improvement

#### **Authority**

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

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

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2017 [the Standards].

#### **Purpose**

The County Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the County Council that these arrangements are in place and operating effectively. The County Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

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

'independent, objective assurance and consulting activity designed to add value and improve an 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'.

#### Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Hampshire County Council lies with the Director of Corporate Resources, as the authority's Chief Finance Officer (S151 Officer).

For the County Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the 'Mission', 'Core Principles', 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

#### **Definitions**

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the County Council this shall mean the Audit Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the County Council this shall mean the Corporate Management Team

#### Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Director of Corporate Resources who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the County Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the County Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the County Council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee).

#### Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Director of Corporate Resources, will provide the Chief Internal Auditor with the resources necessary to fulfil the County Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

'Senior Management' and 'the Board' will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to 'senior management' and 'the Board', for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the County Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to *'senior management'* and *'the Board'*.

If the Chief Internal Auditor, 'the Board' or 'Senior Management' consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Director of Corporate Resources, accordingly.

#### Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- o retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to 'senior management' and 'the Board';
- o reports functionally to 'the Board';
- o reports in their own name;
- o rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognise and address potential conflicts of interest.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to 'Senior Management' and 'the Board'. The nature of the disclose will depend upon the impairment.

To ensure the independence of the Chief Internal Auditor is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute feedback to the performance appraisal of the Chief Internal Auditor. Feedback will also be sought from the Chair of the Audit Committee.

#### Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the 'Mission', 'Core Principles', 'Definition of Internal Auditing', the 'Code of Ethics' and the 'Standards' and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the County Council's laid down procedures.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

#### Access to relevant personnel and records

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the County Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

#### Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The County Council both host and assume a strategic partner role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients. (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the SIAP. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisations success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor. Investigations carried out by internal audit will be managed by the Chief Internal Auditor who will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that County Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned. The decision on whether to invoke criminal proceedings will be made by the Chief Internal Auditor in conjunction with the Monitoring Officer.

The monitoring of the County Council's Anti-Fraud Strategy will be the responsibility of the Chief Internal Auditor, as part of the monitoring of the annual internal audit plan.

Internal audit also facilitate the County Council's participation in the National Fraud Initiative (NFI) in which data from the County Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

#### Reporting

#### Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform it governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

#### Senior Management

As those responsible for the leadership and direction of the Council it is imperative that the Corporate Management Team are engaged in:

- approving the internal audit charter (minimum annually);
- o approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and Chief Internal Auditor to determine inappropriate scope and resource limitations; and
- o receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance

#### The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- o approving the internal audit charter;
- o approving the risk based internal audit plan;
- o approving the internal audit budget and resource plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;
- agreement of the scope and form of the external assessment as part of the quality management and improvement plan;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of nonconformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement

#### Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to 'Senior Management' and 'the Board' for approval.

#### Annex 1

#### Southern Internal Audit Partnership – Client Portfolio

Strategic Partners: Hampshire County Council

**Key Stakeholder Partners:** West Sussex County Council

Havant Borough Council

East Hampshire District Council

Winchester City Council New Forest District Council

Hampshire Fire & Rescue Authority Hampshire Office of the Police & Crime

Commissioner

Hampshire Constabulary

**External clients:** Hampshire Pension Fund

West Sussex Pension Fund

Sussex Office of the Police & Crime

Commissioner Sussex Police Force

New Forest National Park Authority

Ringwood Town Council

Lymington & Pennington Town Council

**Higher Education Institutions** 

University of Winchester

**Further Education Institutions** 

Eastleigh; Isle of Wight; Highbury; Itchen;

Portsmouth: and

QMC

**Third Sector** 

VTCT

#### Annex 2

#### **Assurance Services**

- Risk based audit: in which risks and controls associated with the achievement of
  defined business objectives are identified and both the design and operation of
  the controls in place to mitigate key risks are assessed and tested, to ascertain
  the residual risk to the achievement of managements' objectives. Any audit work
  intended to provide an audit opinion will be undertaken using this approach.
- Developing systems audit: in which:
  - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
  - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- Compliance audit: in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- Quality assurance review: in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- Fraud and irregularity investigations: Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the County Council's Anti Fraud and Anti Corruption Strategy.
- Advisory / Consultancy services: in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.



#### HAMPSHIRE COUNTY COUNCIL

#### **Decision Report**

Decision Maker:	Audit Committee
Date:	26 July 2018
Title:	Annual Governance Statement
Report From:	Director of Transformation and Governance and Director of Corporate Resources – Corporate Services

**Contact name:** Barbara Beardwell, (Head of Law and Governance)

Tel: 01962 845157 Email: Barbara.beardwell@hants.gov.uk

Contact name: Neil Pitman, (Chief Internal Auditor)

Tel: 01962 845139 Email: Neil.Pitman@hants.gov.uk

#### 1. Recommendation

1.1. It is recommended that this Committee approves the draft Annual Governance Statement for signature by the Leader of the County Council and the Chief Executive, subject to any amendments that this Committee may wish to make.

#### 2. Executive Summary

2.1. Annex 1 to this report contains the draft Annual Governance Statement which, pursuant to the Accounts and Audit (England) Regulations 2015, must be approved by the Audit Committee in order for it to accompany the signed and dated Statement of Accounts. The Annual Governance Statement must subsequently be signed by the Leader of the County Council and the Chief Executive.

#### 2. Contextual information

- 2.1. The County Council is required pursuant to the Accounts and Audit (England) Regulations 2015 to produce a broad based Annual Governance Statement.
- 2.2. Once approved by this Committee the Annual Governance Statement must be signed on behalf of the County Council by the Leader of the County Council and the Chief Executive.
- 2.3. The Annual Governance Statement is an important and integral part of the County Council's Corporate Governance regime.

- 2.4. The Annual Governance Statement provides a review of the effectiveness of the County Council's internal control systems and gives assurances about how effectively they operate.
- 2.5. Guidance supplied by the Chartered Institute of Public Finance Accountancy (CIPFA) has been considered in the preparation of the draft Annual Governance Statement.

#### 3. Methodology

- 3.1. In early 2018 Departmental Assurance Statements were sent out to all Departments seeking assurances about departmental governance arrangements.
- 3.2. In March 2018 Officers performing key corporate roles on behalf of the County Council were asked to produce an appropriate position statement based on the CIPFA Guidance.
- 3.3. A copy of the emerging Annual Governance Statement has been sent to all Chief Officers, officers undertaking key corporate roles on behalf of the County Council and the Leader of the County Council for comment. The comments received have been taken into account in preparing the draft Annual Governance Statement in Annex 1.

#### 4. Draft Annual Governance Statement

4.1. The content of the draft Annual Governance Statement follows the CIPFA Guidance and has been prepared in relation to the County Council's new Code of Corporate Governance which was adopted by the County Council (via the Audit Committee) on 2 February 2017. Members of this Committee now have the opportunity to comment upon it and to indicate whether or not they wish to see any amendments made.

#### 5. Outline of Options

#### 5.1. **Option 1**

Approve the Annual Governance Statement as drafted.

#### 5.2. **Option 2**

Approve the Annual Governance Statement with amendments proposed.

#### 5.3. **Option 3**

Reject the Annual Governance Statement.

#### **CORPORATE OR LEGAL INFORMATION:**

#### Links to the Strategic Plan

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

**Other Significant Links** 

Direct links to specific legislation or Government Directives		
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#### 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>

Delivering Good Governance in Local

Government 2016 Edition

Departmental Assurance Statements

#### **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;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally low.

#### 1.2. Equalities Impact Assessment:

No equality impacts have been identified relating to the decision recommended in this Report

#### 2. Impact on Crime and Disorder:

2.1. N/A

#### 3. Climate Change:

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

N/A

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

N/A



## ANNUAL GOVERNANCE STATEMENT 2017/2018

**FOR** 

HAMPSHIRE COUNTY COUNCIL

**AND** 

**HAMPSHIRE PENSION FUND** 

### Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund

#### 1. Scope of Responsibility

Hampshire County Council is responsible for ensuring that:

- its business is conducted in accordance with the law and to proper standards.
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- pursuant to the Local Government Act 1999 it secures continuous improvements in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy.
- there is a sound system of internal control which facilitates the effective exercise of the County Council's functions and which include arrangements for the management of risk.

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel and Board. The combined Panel and Board is responsible for investment, management and governance of the Fund. This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement during 2017-2018.

#### 2. The purpose of Corporate Governance

The governance framework comprises the systems and processes, and cultures and values, by which the County Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the County Council to monitor the achievements of the County Council's strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of the County Council's policies aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2018 and up to the date of approval of the annual report and the statement of accounts.

The County Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' A copy of the Code is available on the County Council's Web site at:

Code of Corporate Governance

# 3. Core Principles of good governance

- 3.1 Behaving with Integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- 3.1.1 The County Council's Constitution is founded on it operating in an open and transparent way, and for the Leader of the County Council and the Chief Executive to set the tone for the organisation by creating a climate and culture of openness, support, and respect.
- 3.1.2 The County Council is committed to the highest ethical standards and has adopted a governance framework to re-enforce this philosophy as well as procedures to investigate any issues should the need arise. The framework, policies and procedures are set out in the County Council's Code of Corporate Governance which was adopted by the County Council during 2016-17. The Code of Corporate Governance demonstrates a comprehensive commitment on the part of the County Council to integrity, ethical values and the rule of law.
- 3.1.3 An officer group comprising the Head of Governance and representatives from Democratic and Member Services, Legal Services and the Insight and Engagement Unit has been established to specifically monitor new legislation. The Legislation Implementation and Review Group meet quarterly, or as required, and provides an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to implement it.

# 3.2 Ensuring openness and comprehensive stakeholder engagement.

- 3.2.1 The County Council's Corporate Strategy the Serving Hampshire Strategic Plan contains clear strategic aims which are communicated on the County Council's website and through various communications. The Plan provides an operating model for business planning and is informed by various departmental and partnership strategies and priorities.
- 3.2.2 Clear guidance and protocols on decision making, effective arrangements for the approval of exempt reports and easy to use templates for decision reports and records ensure that that the County Council takes decisions in public when appropriate and after a full consideration of relevant factors. Details of the framework relevant to decision making is set out in the Corporate Governance Framework.

- 3.2.3 Public consultation to inform decision making is undertaken in accordance with the County Council's Consultation Policy, which includes five principles of consultation setting out when and how the County Council will consult the public. Significant consultation is supported by the County Council's Insight and Engagement Unit team who operate within the Market Research Society's ethical Code of Conduct.
- 3.2.4 The results of all significant consultations are presented at the relevant Executive Member Decision Day to demonstrate how participants' views have been taken into account.
- 3.2.5 Each financial year, an annual report on the Pension Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.
- 3.2.6 In the autumn, a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members.
- 3.2.7 The Statement of Investment Principles is published and made available to scheme employers within three months of any amendments.
- 3.2.8 Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners

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

3.3.1 The strategic aims set out in the *Serving Hampshire* Strategic Plan include a description of the County Council's overarching ambitions for delivering positive economic, social and environmental outcomes for Hampshire. These aims are underpinned by a series of key priorities, which reflect, and are supported by, other detailed departmental plans and strategies. Progress against the strategic aims and priorities is tracked through quarterly performance updates to the County Council's Corporate Management Team and Cabinet. Arrangements for reporting corporate performance are set out in the County Council's Corporate Management Framework. All reports to decision making bodies must also demonstrate their link to the *Serving Hampshire* Strategic Plan, as well as the results of the relevant impact assessments.

# 3.4 Determining the interventions necessary to optimise the achievement of the intended outcomes.

3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decisions of the County Council ensures that decisions are only made after relevant options have been

- weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.
- 3.4.2 The Director of Corporate Resources advises the Pension Fund Panel and Board on all Pension Fund investment and administrative matters.
- 3.4.3 The Pension Fund's independent adviser, advises the Panel and Board on investment matters
- 3.4.4 The Pension Fund Panel and Board uses the Fund's actuary and other consultants as necessary, for advice on matters when in-house expertise is not available. The Panel and Board takes advice from the actuary, the Fund's investment managers or specialist consultants or advisers as required on allocating assets, selecting investment managers, and investment performance targets.
- 3.4.5 Equality Impact Assessments (EIAs) are used throughout the organisation to assess the impact of service proposals and to inform decision making. A review group comprising the Head of Legal, Head of Finance, Corporate Equalities Lead and Assistant Chief Executive undertake periodic cumulative EIAs to understand the overall impact of service proposals on groups with characteristics protected under the Equalities Act (2010).
- 3.4.6 The budget setting process is well established and Departments prioritise budgets and spending in order to achieve intended outcomes. In recent years the budget setting process has inevitably focussed on the achievement of savings to meet reductions in Government grant funding but this aims to be achieved whilst remaining true to the Council's strategic aims and objectives. This includes the consideration of the wider social value that the County Council can generate through its operations.
- 3.4.7 A medium term financial strategy and three year capital programme is updated each year together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates.
- 3.4.8 Risks associated with the achievement of intended outcomes are detailed in Risk Registers held at Corporate, Department and project level. These evaluate the effectiveness of existing control measures as well as identifying proposed mitigation.

# 3.5 Developing the County Council's capacity including the capability of its leadership and the individuals within it

3.5.1 The relationship between Members and Officers is led by the Leader of the Council and the Chief Executive who have established a culture of mutual respect and co-operation. The role of the Chief Executive is set out in the County Council's Constitution and is well understood by the Members of the County Council. The Protocol for Member Officer Relations also provides clear guidance for both officers and Member on how to mange their relationships effectively.

- 3.5.2 The County Council has a well-established cross-party forum, the Member Development Group (MDG) that supports and oversees the development of Members in a number of ways, such as internal and external briefings and courses. This includes a well received monthly Briefing Programme together with ad hoc departmental briefings. The MDG is supported by the Democratic & Member Services Manager (Partnerships and Member Support) and the People Change Commissioner in the Workforce Development Team.
- 3.5.3 Members of the Joint Pension Fund Panel and Board and officers in Corporate Services have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate.
- 3.5.4 A training plan for members of the Joint Pension Fund Panel and Board has been prepared, and training logs for individual members are maintained.
- 3.5.5 The County Council regularly reviews the shape of its workforce against the needs of the service in the context of its capacity and capability requirements. This then informs a range of strategies, for example; recruitment, retention, operating models, ways of working and people development in order to provide effective leadership and deploy appropriate resources to meet the needs of services.
- 3.5.6 The Council's Valuing Performance policy provides a framework for staff and managers to meet, discuss and set goals in line with service requirements, following which regular reviews of performance, learning and progress takes place. Staff are held accountable for their own and their teams performance and are encouraged to use the range of learning opportunities that are available across the Council.
- 3.5.7 There is an emphasis on the need for high performance and resilience, of which health and wellbeing and continuous development are critical elements in the regular discussions between managers and staff.

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

- 3.6.1 The County Council's Corporate Strategy is underpinned by the Corporate Performance Management Framework, which establishes how the quality of services for users is to be measured and reviewed on a regular basis. This includes quarterly reporting of progress against the *Serving Hampshire* Strategic Plan. The County Council's Annual Performance Report is published on the County Council's website and includes a summary of key areas of performance, including an analysis of any major performance risks and mitigations, as well as providing an overview of sources of external validation and customer feedback.
- 3.6.2 The County Council has in place a Risk Management Strategy, with oversight of arrangements provided by the Risk Management Board. The Audit

Committee are responsible for considering the effect of the County Council's risk management arrangements.

- 3.6.3 A comprehensive Information Governance Framework is in place, overseen by the Risk Management Board, chaired by the Senior Information Risk Officer.
- 3.6.4 The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources.
- 3.6.5 The Audit Plan 2017 18 was developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's key risks and objectives, this includes a periodic review of the County Council's risk management processes.
- 3.6.6 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.
- 3.6.7 The internal audit plan incorporates provision for both proactive and reactive counter fraud and corruption work, which is underpinned by an embedded Anti Fraud & Corruption Strategy and Policy and Anti Bribery Act Policy.
- 3.6.8 The delivery of the internal audit plan enables the Chief Internal Auditor to provide an annual report providing an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control which is reported to Senior Management and the Audit Committee.
- 3.6.9 The County Council's Audit Committee is well established and reports to Full Council. Members of the Audit Committee have no executive responsibility for the management of the organisation, thus ensuring that they are sufficiently independent to scrutinise and challenge matters brought to their attention.
- 3.6.10 The Audit Committee has a clear 'Terms of Reference' providing an effective source of scrutiny, challenge and assurance regarding the arrangements for managing risk and maintaining an effective control environment.
- 3.6.11 The County Council has a well-developed and effective scrutiny function, the structure of which is formalised through the County Council's Constitution. This function is resourced to ensure that Members are able to robustly challenge the Council's decision-making, have active engagement in policy review and development, and monitor the performance of the County Council as a whole.
- 3.6.12 The County Council has strong financial management arrangements at both the strategic and operational level and consistently obtains unqualified opinions for its annual accounts and value for money assessment. The Section 151 Officer is a member of the Corporate Management team and all formal financial decision making has the benefit of the advice and review of the Chief Financial Officer or her representative.

- 3.6.13 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.
- 3.6.14 Financial management in key risk areas across the County Council focusses on activity and performance management alongside the budget management processes and the financial management framework throughout all tiers of the organisation is appropriately advised and supported by the Finance Department, with a particular focus on the change management programmes that have been a feature of Departmental activity for many years.

# 3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.

- 3.7.1 The decision making guidance, protocols and templates referred to in the Code of Corporate Governance and the involvement of senior departmental officers, legal officers and finance officers ensures that public reports are written in a clear and accessible way with sufficient information to enable members of the public to formulate informed opinions on the matters for decision.
- 3.7.2 The Corporate Performance Management Framework provides a transparent cycle of reporting on core performance metrics to CMT and Cabinet. Performance information is published online and is easily accessible to staff, partners and the public.
- 3.7.3 The 'Internal Audit Charter' is presented annually for approval by the Audit Committee. The Charter makes provision that 'Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee).'
- 3.7.4 The on-going work of internal audit is presented through a quarterly progress report to Audit Committee providing an overview of service performance; delivery against the plan; and progress made by the organisation in the implementation of management actions agreed to mitigate risks identified through internal audit work.
- 3.7.5 Representatives of External Audit routinely attend Audit Committee meetings and present all External Audit reports. Any recommendations for corrective action detailed within External Audit reports are highlighted to Members who will track through to implementation. This is achieved through the clear and concise nature of the minutes to each meeting couple with the inclusion of any overdue recommendations within the internal audit progress report.
- 3.7.6 The internal audit plan includes provision to review the County Council's approach to governance, risk and controls for partnership working. Such reviews are formally reported through the Audit Committee with any significant issues highlighted accordingly.

- 3.7.7 Where appropriate internal audit will gain assurances from third parties to contribute to their overall assurance opinion.
- 3.7.8 Financial reporting complies with relevant statute, codes and good practice guidance and financial and performance information are reported consistently throughout the year alongside each other. Where relevant and appropriate performance comparisons are made to other organisations.

## 4 Obtain assurances on the effectiveness of key controls

- 4.1 Appropriate assurance statements are received from designated internal and external assurance providers.
- 4.2 Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and departmental level. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and also carries out tests to confirm the level of compliance. Together the results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed.

This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

- 4.3 External sources of assurance include the annual opinion and value for money conclusion by external auditors, and statutory inspections of adults social care services, and children's services. These reports are subject to consideration by senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.
- 4.4 External sources of validation are being increasingly used to inform assessment of the organisations performance as a core part of the Corporate Performance Framework.

## 5 Evaluate assurances and identify gaps in control/assurance

- 5.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls.
- 5.2 The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the

officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

- 5.3 The Head of Law and Governance and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.
- One of the key elements of the Corporate Governance regime and the production of the Annual Governance Statement is the methodology applied to obtain the necessary assurance. This has included:
  - a self assessment assurance statement being completed every year by all Chief Officers giving assurance about the governance arrangements in their Departments.
  - consultation with other relevant officers throughout the County Council.
- 5.5 The assurance statements cover a range of Corporate Governance and performance issues and they refer to the existence, knowledge and application within departments of governance policies generally.
- In line with the Internal Audit Charter approved by the Audit Committee in June, 2017 and which is available on the County Council's website, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.
- 5.7 The Internal Audit Team's work forms the basis of a report to the relevant Chief Officer or Key Corporate Manager for any follow up work necessary, and feeds into this Annual Governance Statement.
- 5.8 Departmental Corporate Governance assurance statements were sent out to Departments in 2017.

# 6 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance

- 6.1 Work will continue to establish the new *Serving Hampshire* Strategic Plan, and to finalise the revised Corporate Performance Framework. New systems for the collection and analysis of customer experience are being developed to support the ambition to place greater emphasis on customer feedback and external sources of validation. This work includes the development of methods to engage employees further and capture staff feedback.
- The County Council understands that the working environment is becoming more challenging and that prolonged periods of excessive pressure have a negative impact on health. As a responsible employer it is important that the County Council takes action to promote the health of staff and mitigate any risks to their health and to the quality of the services that they provide to

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Hampshire citizens. Given this, the County Council is taking steps to ensure an organisational approach to workplace health and wellbeing and is developing a workplace programme of activity, including a staff survey, which will initially focus on promoting, supporting and championing resilience and mental wellbeing in the workplace.

- 6.3 The County Council will continue to take steps to embed the changes in data protection law resulting from the General Data Protection Regulations and associated UK legislation, including the review and adoption of new Policies, processes and procedures. Regular reports on progress will be presented to the Risk Management Board.
- Resources have been put in place to bring maintenance and monitoring of MySQL databases which historically have sat outside of the corporate support model, into alignment with the rest of the infrastructure. In addition, documentation to support the decision making process and procedures to update / patch the SAP environment will be put in place
- 6.5 Audits undertaken in the 17-18 year within the Adults' Health and Care Department have shown that recording on AIS has been at times incomplete or absent. In other instances the recording has not been completed consistently or within the expected timeframe. The Department is implementing a wide range of actions to seek to continuously improve including raising awareness of the issue and the responsibilities of staff and managers through staff communications and manager cascade; updating staff training; and refreshing the Social Care Practice Manual. The Department's Safeguarding, Quality and Governance Team are proactively following this up and auditing progress to ensure improved compliance with Departmental expectations. The Department is also undertaking a fundamental review of current processes as part of the Working Differently programme to improve staff recording, this includes streamlining the approach to and recording of case management notes to simplify and to focus on the key information. In the medium term, Adults' Health & Care are in the process of acquiring a new social care system which will further streamline the approach to recording and improve the ways that staff are able to do this, for instance enabling staff to update the system in real time in a mobile way out of the office.
- The County Council will undertake a review of its Insurance Arrangements, including the levels and scope of insurances and an analysis of its risk appetite in respect to retained risk.
- 6.7 The County Council's Risk Management Board will undertake a review of the County Council's Risk Management Strategy including the operation of corporate and departmental risk registers.
- The County Council's Departments will review their contract management arrangements taking a more proactive risk based approach.
- 6.9 Internal Audit are currently compiling a Council wide 'assurance map' to ascertain all assurances received to mitigate controls in place to manage the organisation's key risks, The outcome of this work will be presented to the Audit Committee to inform the effective discharge of their duties.

- 6.10 Corporate Resilience is a priority for the County Council, and as such renewed engagement with all County Council Departments has begun in order to ensure compliance with the Corporate Resilience Strategy. The new Corporate Resilience Framework will be published and tested in 2018, and supported by new guidance for Departmental level plans and a new template for Service Recovery Plans. The new template will ensure that easier language and formatting is used to enable service level users to interact better with their plans. This will be supported by greater departmental level engagement and support by the Emergency Planning Team.
- 6.11 A thorough analysis of all DBS related processes and technology has been carried out, resulting in a detailed action plan that is being managed by a dedicated project team. The Action Plan will ensure that all corrective action is undertaken in a controlled and robust manner and includes carrying out a complete review of all DBS data held on SAP as an initial activity. All data omissions or inaccuracies will be corrected in SAP by the end of August 2018. In addition to the immediate changes already put in place to ensure better compliance with policy and assurance that all checks are initiated and recorded appropriately, the project team will also review and, if necessary, implement further changes to business processes within the Recruitment Team to further tighten the process. An assessment of the current technologies being used to initiate and record both new employments and changes or moves to existing employments is underway with the objective of identifying and developing further system controls and validations within the end to end process. Additionally, improvements to how the organisation and managers can monitor DBS checking compliance and data recording will be addressed. A cross-cutting theme from the review will be to update and enhance guidance and clarify roles and responsibilities of both hiring managers and the Recruitment Team to support the steps required to successfully complete recruitment in line with safer recruitment requirements and expected accountabilities
- 7 There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored

In response to the Action Plan identified in the 2016-2017 Annual Governance Statement:-

7.1 Work has been undertaken to develop a new Strategic Plan, to replace the previous Corporate Strategy Shaping Hampshire. The new Serving Hampshire Strategic Plan covers the period 2017-2021. The County Council updates records of its sources of external validation every six months. Alongside the Serving Hampshire performance measures, this external validation source informs the County Council's judgement of overall performance. The new Strategic Plan will be underpinned by a revised Performance Management Framework, providing the local governance structure for performance management and reporting to Cabinet. As agreed by Cabinet in 2016, the revised Framework includes a more extensive use of the outcomes of external assessments as well as customer feedback in judging the organisation's overall, annual performance and subsequent

areas for improvement. These combined sources of information sit alongside the County Council's existing programme of internal audit and the annual equality and corporate governance statements, including staff feedback. Regular reporting against an agreed set of performance indicators will continue to be undertaken aligned to the priorities identified in the revised Strategic Plan.

- 7.2 The Risk Management Board oversaw the implementation of the improvements agreed following the Information Commissioner's consensual audit. These actions were included in the County Council's preparations for implementing the General Data Protection Regulation and associated UK legislation.
- 7.3 Following further investigation it was agreed by the Digital 2 Board to not proceed with automated dashboard reporting for corporate performance indicators as the cost in staff time outweighs the benefit. Existing processes meet current reporting requirements.
- 7.4 The proposed role of the Channel Design Authority has been incorporated into the Digital Board.
- 7.5 The Members Development Group were fully involved in reviewing and shaping the Member Induction Programme following the County Council all out Election in 2017 and have undertaken an important mentoring role within their political groups to the 30 new Members that were elected. All new Members attended a number of Workshops to provide information about their role, including decision making and overview and scrutiny. The Workshops also presented returning Members with a refresher opportunity.

### **Declaration**

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are set out in this Statement.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:	Signed:	
Chief Executive	Leader of the Council	
Date:	Date:	



#### HAMPSHIRE COUNTY COUNCIL

## Report

Decision Maker:	Audit Committee	
Date:	26 July 2017	
Title:	Statement of Accounts 2017/18	
Report From:	Deputy Chief Executive and Director of Corporate Resources	

**Contact name:** Anne Hibbert – Corporate Accounting Manager

Tel: 01962 847533 Email: anne.hibbert@hants.gov.uk

#### 1. Recommendations

- 1.1. That the Statement of Accounts for 2017/18 for Hampshire County Council and the Hampshire Pension Fund be approved.
- 1.2. That the letters of representation for Hampshire County Council and the Hampshire Pension Fund attached at Appendix 1 be signed.
- 1.3. That delegated authority be given to the Deputy Chief Executive and 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.

### 2. Executive Summary

- 2.1. The Accounts and Audit Regulations 2015 require the County Council's Statement of Accounts, including the Accounts of the Hampshire Pension Fund, to be approved by the Chief Financial Officer by 31 May and by Members by 31 July following the year end. The County Council has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee.
- 2.2. The external audit of the Statements has been completed and the conclusions of the audit are contained within the external auditor's report, which is also on this agenda.
- 2.3. The end of year financial report for 2017/18 was considered by Cabinet on 18 June 2018 and the Statement of Accounts is consistent with that report.
- 2.4. This report presents for the Committee's approval the Statement of Accounts 2017/18 together with letters to the auditor containing representations by the Chief Financial Officer and members of the Committee regarding information and systems of internal control to confirm that the accounts present a true and fair view. The report also recommends that the Deputy Chief Executive and Director of Corporate Resources be given delegated authority to make any minor amendments if required by the external auditor prior to the issue of the audit opinion.

## 3. Code of Practice on Local Authority Accounting

- 3.1. The attached Statement of Accounts has been drawn up in the form prescribed by the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In addition, the Accounts and Audit Regulations 2015 contain certain requirements for disclosure in the Statement of Accounts.
- 3.2. For 2017/18, the code required no significant changes in the presentation or compilation of the accounts.

### 4. Statement of Accounts 2017/18

**4.1.** The key features of the Statement of Accounts are summarised in the following paragraphs.

## Statement of Responsibilities for the Statement of Accounts

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

### **Narrative Report**

- 4.3. The narrative report provides information about the key issues affecting the Authority, and reports on the Authority's financial and non-financial performance.
- 4.4. The narrative statement is designed to help readers understand the Authority, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts.

#### **Movement in Reserves Statement**

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

#### **Balance Sheet**

- 4.6. This shows the value of the assets and liabilities recognised by the County Council. The net assets of the County Council are matched by reserves; either usable (£646 million) or unusable (£2.7 billion).
- 4.7. The majority of the County Council's net worth is tied up in the value of its property, plant and equipment, primarily the replacement value of land and buildings, which to the extent that it exceeds outstanding borrowing is reflected in the value of the Revaluation Reserve and the Capital Adjustment account. This value would only become usable if the County Council was to dispose of all its fixed assets at their balance sheet value.
- 4.8. Unusable reserves are reduced by the pension reserve. This reserve provides a mechanism for recognising in the balance sheet the County Council's actuarially assessed pension liability as measured under IAS19 without requiring the liability to be recognised in setting council tax. The County Council's pension net liability has increased as at March 2018, from £1,2017 million to £1,340 million. Whilst the value of pension fund assets increased by over £85 million in the period, this was offset by a larger increase in the present value of pension liabilities mainly as a result of the change in actuarial assumptions, including a higher rate of future inflation and increased longevity.

#### **Cash Flow Statement**

**4.9.** The Cash Flow Statement is designed to demonstrate the changes that have taken place in the Authority's cash position over the year and to highlight the causes of that change.

# **Comprehensive Income and Expenditure Statement**

- 4.10. This statement shows the accounting cost of providing services rather than the amount funded from taxation. The taxation position is shown in the Movement of Reserves Statement and the difference between them is summarised in the Expenditure and Funding Analysis note 1 and itemised in note 2 of the Statement of Accounts.
- **4.11.** The inclusion of other comprehensive income and expenditure such as net gains on the revaluation of assets and the actuarial gain or loss on pension fund assets and liabilities creates a bottom line figure on the Comprehensive Income and Expenditure Statement equal to the change in net worth on the Balance Sheet.

#### Notes to the accounts

**4.12.** These comprehensive notes incorporate information to give the reader information to support the accounts. From 2017/18 the accounting policies are incorporated within the relevant disclosure note with the general policies included towards the end of the notes.

## **Hampshire Pension Fund**

**4.13.** The accounts of the Hampshire Pension Fund show that there was a surplus of contributions over benefits payable in the year of just over £40 million, that net investment income was £112 million, and that the market value of investments increased by £165 million. Overall there was a net increase in the net assets of the fund of £276 million from £6.3 billion to £6.6 billion.

#### **Annual Governance Statement**

4.14. The Annual Governance Statement has to accompany the Statement of Accounts. The County Council's Statement is presented elsewhere on this agenda.

## 5. Next Steps

- 5.1. In order to conclude the audit opinion, the external auditor requires written representations by the Chief Financial Officer and members of the Audit Committee confirming their confidence in and reliance on information and systems of internal control thus enabling them to confirm that the accounts for the County Council and the Hampshire Pension Fund present a true and fair view. Copies of the letters to be signed at the meeting of the Audit Committee are attached at Appendix 1.
- 5.2. The County Council is required to publish its Statement of Accounts by 31 July 2018. Should any minor amendments to the Statements be required prior to the issue of the audit opinion and to the publication of the Statement of Accounts, it is recommended that the Deputy Chief Executive and Director of Corporate Resources be authorised to make any such amendment. The Statement of Accounts including the audit opinion will be published on Hantsweb.

### CORPORATE OR LEGAL INFORMATION:

# **Links to the Corporate Strategy**

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because:

It relates to the effective Governance of the County Council.

## Section 100 D - Local Government Act 1972 - background documents

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

Document Reference

Hampshire County Council Audit Results

Report

#### 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 disproportionally low.

#### 1.2. Equalities Impact Assessment:

The future approach for collecting declarations will need to consider any impact on equality objectives.

## 2. Impact on Crime and Disorder:

2.1 The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime. This report has no impact on the prevention of crime.

## 3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?
  - No specific proposals
- 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.

Appendix 1

Maria Grindley
Executive Director
Ernst & Young
Apex Plaza,
Forbury Road,
Reading RG1 1VF

Carolyn Williamson

cw/ks

01962 847400

26 July 2018

carolyn.williamson@hants.gov.uk

#### Dear Maria

This letter of representations is provided in connection with your audit of the financial statements of Hampshire County Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Hampshire County Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

#### A. Financial Statements and Financial Records

- We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- 2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
- 3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
- 4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial

- statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
- 5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

- We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
- 2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- 3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - · involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other noncompliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

# C. Information Provided and Completeness of Information and Transactions

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

- 2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on 26 July 2018.
- 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

# D. Liabilities and Contingencies

- All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
- 2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

### E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

- 1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement.
- 2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Ownership of Assets

Except for assets capitalised under finance leases, the Council has satisfactory title
to all assets appearing in the balance sheet(s), and there are no liens or
encumbrances on the Council's assets, nor has any asset been pledged as
collateral. All assets to which the Council has satisfactory title appear in the balance
sheet.

- 2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
- 3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

#### H. Reserves

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

## J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the fair value of property, plant and equipment and the IAS19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

## K. Pensions Liability and PPE Valuations Estimate

- We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- 2. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
- We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- 4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

# L. Retirement benefits

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

Yours sincerely,
Carolyn Williamson, Chief Financial Officer
I confirm that this letter has been discussed and agreed at the Audit Committee on 2 July 2018
Councillor Keith Evans, Chair, Audit Committee

Maria Grindley
Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

Appendix 1

Carolyn Williamson

cw/ks

01962 847400

28 September 2017

carolyn.williamson@hants.gov.uk

#### Dear Maria

This letter of representations is provided in connection with your audit of the financial statements of *Hampshire Pension* ("the Fund") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

#### A. Financial Statements and Financial Records

- We have fulfilled our responsibilities, under the relevant statutory authorities, for the
  preparation of the financial statements in accordance with the Accounts and Audit
  Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in
  the United Kingdom 2017/18.
- 7. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
- 8. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the-financial statements.
- 9. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

- 10. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 that are free from material misstatement, whether due to fraud or error.
- 11. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

- 1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
- We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- 3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
- There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
- 6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including noncompliance matters:
  - Involving financial improprieties
  - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
  - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
  - Involving management, or employees who have significant roles in internal control, or others
  - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

## C. Information Provided and Completeness of Information and Transactions

- 7. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.

- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- 8. You have been informed of all changes to the Fund rules.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 10. We have made available to you all minutes of the Audit Committee and Pension Fund Advisory Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
- 11. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- 12. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
- 13. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
- 14. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

#### D. Liabilities and Contingencies

- All liabilities and contingencies, including those associated with guarantees, whether written
  or oral, have been disclosed to you and are appropriately reflected in the financial
  statements.
- 4. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
- 5. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

#### E. Subsequent Events

 There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Pension Fund Annual Report.

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

# G. Independence

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

#### H. Derivative Financial Instruments

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

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

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

#### J. Actuarial valuation

1. The latest report of the actuary AON Hewitt as at 31 March 2018 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

#### L. Estimates

- 1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 2. Accounting estimates recognised or disclosed in the financial statements:
- We believe the measurement processes, including related assumptions and models, we
  used in determining accounting estimates is appropriate and the application of these
  processes is consistent.
- The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

### L. Investment managers' control reports ISAE 3402

1. The latest reports available do not all cover the whole of the 2017/18 audit year. We can confirm that we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

Yours sincerely,
Carolyn Williamson, Chief Financial Officer
I confirm that this letter has been discussed and agreed at the Audit Committee on 20 July 2018
Cllr Keith Evans
Chair, Audit Committee



# **Hampshire County Council**

**Statement of Accounts** 

2017/18

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# **Contact Details**

For further information about the accounts please contact:

Post: The Director of Corporate Resources

Hampshire County Council

The Castle Winchester Hampshire SO23 8UB

Telephone: 01962 847533

Email: budget@hants.gov.uk

# **Narrative Report**

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

- Understand the overarching financial position of the County Council and the outturn position for 2017/18;
- Have confidence that the public money with which the County Council has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the County Council is sound and secure.

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

This Narrative Report has been structured to help enable readers to understand the County Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts. The report provides information about Hampshire, including the key issues affecting the Authority and its accounts. It also provides a summary of the financial position at 31 March 2018 and is structured as set out below:

- Statement from the Leader of Hampshire County Council
- Introduction from the Chief Financial Officer
- An Introduction to Hampshire
- The County Council's Non-Financial Performance
- Financial Performance of the County Council 2017/18
- Corporate Risks
- Summary Position
- Where you can get Further Information

This is followed by an explanation of the Financial Statements, including information on changes during 2017/18.

# Statement from the Leader of Hampshire County Council

"As Leader of the County Council, I am delighted to be able to present to you the Statement of Accounts for 2017/18. The County Council has always had a strong track record of financial management and stewardship and this continues to be evident as we progress through this extended period of tight spending control."

"The County Council has always been willing to play its part to get the country's finances back in balance and up to the year 2017/18 we will have reduced spending by over £340 million since 2008, whilst at the same time being recognised as one of the top performing county councils in the country."

"Since the start of the decade as the Government have been focused on reducing the deficit nationally and funding has been cut, we have worked diligently to stretch every penny – delivering savings, reinvesting in new, more efficient ways of working, making prudent use of our reserves, and delivering more with less. Residents have told us they support this approach, and it has proven effective – and by 2019/20 the total savings we will have removed from the budget will rise further to £480 million. We have fewer buildings, fewer staff and are making much greater use of new technology."

"This has only been possible due to our scale, capacity, financial resources and strong leadership. We have planned well ahead of time for the grant reductions that we knew would be required to reduce public spending and have used our reserves wisely to support the continuing significant change programme across the Authority and to ensure we have adequate time to implement changes properly and safely in order to minimise the impact on residents wherever possible."

"The Statement of Accounts this financial year have been produced in accordance with the new statutory timescales which came into force this year. This is an enormous achievement that has required a collective effort across the organisation and I would like to take this opportunity to thank all of our staff for their contribution. This is the culmination of work throughout the year which ensures the careful management of our finances and enables us to make fully informed decisions about the appropriate use of County Council resources and deliver the quality of services that residents have quite rightly come to expect."

"We are well placed to face the future financial challenges that are forecast to the end of the decade, and beyond, and the financial information contained in this Narrative Report and the accounts themselves once again serve to highlight the continuing strength and success of this great County."

Councillor Roy Perry - Leader of Hampshire County Council

## **Introduction from the Chief Financial Officer**

The Statement of Accounts for 2017/18 draws to a close another challenging but successful financial year for the County Council. Financial performance has been strong across all departments despite reducing budgets and growing demand pressures in all areas, but notably within adults' and children's social care.

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

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

The accounts themselves are very complex and technical in nature, but I hope you will take the time to look through them and in particular, read the Narrative Report which provides an excellent summary of what has happened during the financial year and outlines the financial standing of the County Council as at 31 March 2018.

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

Carolyn Williamson FCPFA
Deputy Chief Executive and Director of Corporate Resources

# An Introduction to Hampshire

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

Hampshire County Council is one of three local authorities in Hampshire (along with Portsmouth City Council and Southampton City Council) that provide 'upper tier' services, such as social care and education to residents of the county. In addition, there are 11 district councils and 261 parish and town councils providing a range of services to businesses and residents.

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

## **Key Facts about Hampshire**

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

(http://www3.hants.gov.uk/factsandfigures/keyfactsandfigures.htm)

Population 1.32 million (2011 Census) expected to grow to 1.43 million by 2024 - an increase of over 8.1%	85% of Hampshire is defined as rural and over a third of the county's area is within National Parks or Areas of Outstanding Natural Beauty	545,000 households, of which 71% are owner- occupied (2011 Census)
Hampshire (county) has 65,000 businesses and approximately 689,000 people in work, of whom 114,600 work part-time and 101,900 are self-employed (ONS)	The Hampshire (county) economy is worth approximately £35.4 billion; £46.5 billion including Portsmouth and Southampton (ONS)	Tourism is worth almost £3 billion annually to the Hampshire economy and each year Hampshire is visited by 4.5 million staying visitors and a further 52 million day visitors
The County Council teaches around 137,000 pupils in its maintained schools with an additional 36,000 pupils in academies	Hampshire has 5,300 miles (8,600 kilometres) of road and 193 miles (310 kilometres) of railway track, incorporating 49 stations	The population aged 65 and over in Hampshire increased by 21% between 2001 and 2011, nearly double the national increase (11%)
Hampshire has more cars than any other county and two-thirds of commuters in Hampshire travel by car (2011 Census)	One in every 46 children educated in England is taught in Hampshire	The number of very old people in Hampshire (those aged 85 and over) grew by 35% between 2001 and 2011,

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

As the County Council continues with the delivery of its next transformation programme – Transformation to 2019 – the need for a robust, strategic narrative is crucial. Central Government continues to reduce the amount of funding it gives to the County Council and at the same time, demand for County Council services is increasing. As a result, the County Council needs to deliver a further £140m savings by 2019 – bringing the Authority's cumulative spending reductions to nearly half a billion pounds by the end of the decade.

## Our Strategic Plan for 2017 - 20

In this context, the County Council requires a strategic narrative that will support the Authority to make tough, but necessary, choices about future services. The 'Serving Hampshire - Strategic Plan 2017 – 2021' is intended to guide decision-making to ensure that Hampshire taxpayers' money is targeted where it is needed most, and where it can make the greatest difference.

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

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

- Hampshire maintains strong and sustainable economic growth and **prosperity** – The first strategic aim relates to Hampshire's future economic growth and prosperity.
- People in Hampshire live safe, healthy and independent lives The second strategic aim is about supporting people to live safe, healthy and independent lives by focusing the County Council's resources where need is greatest, and where they can make the biggest difference.
- Hampshire enjoys a rich and diverse environment The third strategic aim balances the first by ensuring that Hampshire's economic success does not come at the expense of the county's environment and heritage.
- Hampshire enjoys strong, inclusive communities This strategic aim is about recognising the resources, skills and strengths that exist in local communities and that, when utilised, can help reduce the demand and dependency on County Council services.

Reductions in central funding to councils combined with rising demand for care services mean that our corporate strategy and medium term financial plan focus on targeting resources at the most vulnerable people while becoming more efficient in the delivery of our services. The County Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable.

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

## **Looking Towards 2020**

Central Government continues to reduce the amount of funding it gives to the County Council. At the same time, demand for County Council services is increasing.

The County Council reviews its budgetary position annually and produces a rolling three year plan, known as the Medium Term Financial Strategy (MTFS). This plan considers the financial climate at both the local and national level together with available resources and budgetary pressures in arriving at a financial strategy.

The County Council's MTFS was approved by the County Council in November 2017 (Agenda Item 40). The report considered detailed savings proposals from departments as part of the Transformation to 2019 (Tt2019) Programme, set out the financial context; including the Council's approach to commercial activity and detailed the outcomes of the 'Serving Hampshire – Balancing the Budget' public consultation.

Up to the end of 2017/18, some £340m has already been removed from budgets and plans are in place to save a further £140m by 2019/20, taking the total to almost half a billion. In many cases those savings have been required to provide additional resources to meet rising demand for the services we deliver to the most vulnerable, as well as to address our falling funding.

These forecasts include significant cost pressures relating to social care for both adults and children and also allow for pay and inflationary pressures across other services including other key factors such as new highways and increased waste disposal costs as a result of new development and housebuilding across the county.

The key challenge for the County Council looking forward is to balance the budget over this period, whilst minimising the impact on service users and at the same time maintaining and even improving service outcomes and performance.

Beyond 2017/18, Hampshire County Council will need to implement its Tt2019 Programme and as part of the MTFS, sufficient funding has been identified to bridge the anticipated budget deficit in 2018/19 in order to allow the current strategy of two year savings targets to continue. Funding has also been allocated to cash flow the safe delivery of the Tt2019 Programme which will extend beyond 2019/20: recognising that it becomes successively more difficult to deliver savings on top of what has been generated so far.

The Tt2019 Programme is progressing well and to plan, but it is clear that a further £140m of savings will be extremely difficult to achieve and will take significantly longer to deliver to avoid service disruption. The Chief Executive's report on Transformation to 2019: Report No. 3 was presented to Cabinet in April 2018 (Agenda Item 6) and outlined the positive progress being made.

Taking up to four years to safely deliver service changes rather than being driven to deliver within the two year financial target requires the careful use of reserves as part of our overall financial strategy to allow the time to deliver and also to provide resources to invest in the transformation of services. This further emphasises the value of our reserves strategy.

There is no doubt from all of the work completed by departments to date, that Tt2019 is set to test the County Council like no other programme ever has before redesigning services and developing new operating models for services consistent with the reducing financial envelope. However, whilst Tt2019 represents an immense challenge, the County Council does have significant capacity, capability and experience to tackle the task.

Capital investment plans over the medium term period are dominated by the need to provide additional school places for Secondary School children. The Capital Programme delivers schemes totalling £520m over the three years from 2017/18 to 2019/20. It will provide:

£179m of investment in new and extended school buildings in Hampshire in 2017/18 to 2019/20 to ensure there is a school place for every child in Hampshire, providing a big boost for the local economy through jobs and construction materials.

- £109m for structural maintenance of roads and bridges in Hampshire over the next three years.
- £100m for integrated transport schemes including seven major infrastructure schemes, totalling £85m, of which six are expected to start in 2018/19.
- £122m for major improvements of school and other County Council buildings over the next three years.

The Treasury Management Strategy over the period will continue to build on existing policies and practices, in particular protecting investment capital whilst at the same time looking at longer term products to generate a better rate of return. Interest rates are expected to move during this time and the County Council will need to be careful to commence long term borrowing activity at the correct time, following a long period of 'internally borrowing' rather than seeking funds from the market.

## **Key Facts about Hampshire County Council**

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

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

The County Council has 78 Councillors (also known as Members) who decide the budgets and policies for the vital local services provided by Hampshire County Council and following local government elections in May 2017 the political composition is now as follows:

- 56 Conservative
- 19 Liberal Democrats
- 2 Labour Party
- 1 the Community Campaign (Hart)

The turnout for the 2017 County Council elections was 36% of the electorate.

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

Supporting the work of the elected members is the Corporate Management Team (CMT) which comprises of seven Chief Officers and an Assistant Chief Executive and is led by the Chief Executive. CMT work with, and for, the Leader and Cabinet to maximise the capacity and effectiveness of the organisation, in order to protect and build strong, sustainable public services that improve the quality of life for the

people of Hampshire. The current make up of CMT is detailed below. Note 8b shows the further detail of people that have been in a strategic post during 2017/18:

- Chief Executive John Coughlan (CBE)
- Deputy Chief Executive and Director of Corporate Resources Carolyn Williamson (FCPFA)
- Director of Adults' Health and Care Graham Allen
- Director of Transformation and Governance Paul Archer
- Director of Children's Services Steve Crocker
- Director of Economy, Transport and Environment Stuart Jarvis
- Director of Culture, Communities and Business Services Karen Murray
- Assistant Chief Executive Deborah Harkin

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

At 31 March 2018, the County Council employed 37,702 people, making the County Council one of the largest employers in the county. Many of these employees work part-time. In full-time equivalent (FTE) terms, the total number of employees was 24,739 at 31 March 2018 as shown below:

Full-Time Equivalent Employees	March 2017	March 2018
Adults' Health and Care	2,737	2,748
Children's Service – Schools	15,593	15,110
Children's Services – Non Schools	2,086	2,154
Economy, Environment and Transport	582	841
Culture, Communities and Business Services	2,375	2,303
Corporate Services	1,464	1,583
Total	24,837	24,739

This is a net decrease of 98 since 31 March 2017 which is in part due to reorganisations and school amalgamations in response to budget pressures. This is offset by an increase in temporary roles in most departments linked to transformation programmes in addition to some income earning and grant funded posts. There has also been a planned increase in social workers and staff working in the newly opened children's homes.

## The County Council's Non-Financial Performance

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

The County Council's Performance Management Framework (PMF) provides the local governance structure for performance management and reporting to Cabinet. The PMF specifies that Cabinet receives bi-annual reports on the County Council's performance against the strategic priorities set out in the Serving Hampshire plan. Performance information on children's and adults' safeguarding, major change programmes, including Tt2019, and the County Council's financial strategy are reported separately to Cabinet.

In order to report progress against Serving Hampshire, departments are asked to rate performance against success measures on a quarterly basis. For each measure, a simple risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information. Departments are also asked to provide an overview of key achievements and risks / issues against agreed priorities, as well as the results of any recent external assessments.

As agreed by Cabinet in June 2017, the County Council is placing greater emphasis on the outcomes of external assessment and resident feedback in judging the organisation's performance and areas for improvement. Alongside these sources, a robust set of core performance measures continues to be used. These ensure alignment with the Serving Hampshire Strategic Plan and the County Council's Public Health Strategy.

Overall performance against Serving Hampshire remained good during 2017/18, evidencing strong performance in the delivery of core services against measures for which we currently have data. Overall the majority (62%) of measures where we have current data were reported as low performance risk. About half (51%) of the measures showed improvement. In addition to this, almost two thirds (64%) of measures had met the target set by the relevant department.

Based on current data, all measures are considered to present low to medium risk. In cases where targets were not met, departmental improvement plans are in place.

Performance highlights for 2017/18 include:

 In March 2017, the Department for Education (DfE) published an independent evaluation of the Hampshire Innovation Programme evidencing: an increase in the percentage of children's social worker time spent with families from 34% to 58%; estimated notional savings through increased productivity of social workers of £9,000 per social worker; and an increase in the percentage of time spent on the initial engagement of families from 30% to 70% as a result of the new Family Intervention Team.

- A new short-term reablement service at the Hampshire Hospitals NHS Foundation Trust in Basingstoke was introduced by the County Council. The Firs, located within the hospital site, provides specially adapted accommodation for up to 17 people who receive tailored support from social care staff. This additional capacity is helping to reduce the number of delayed hospital discharges by supporting more effective patient flow and discharge through improved multi-professional and multi-agency working.
- 98% of parents were offered a place for their child in one of their three preferred secondary schools for September 2018, with over 92% receiving their first choice of secondary school. Almost 99% of pupils transferring from Infant to Junior school received a place at one of their preferred schools - with 97% obtaining a place at their first choice school (consistent with the previous year).
- 65% of Hampshire's students taking Key Stage 2 assessments in 2017 achieved the expected level in reading, writing and mathematics, compared with 61% nationally. Hampshire outperformed its statistical neighbours in these results.
- Overall attainment in Hampshire secondary schools in 2017 remained above national attainment: 25% of pupils achieved the English Baccalaureate against 24% nationally; 68% of pupils achieved "The Basics" (a Grade 9 to 4 in both English and mathematics) against 64% nationally.
- CO2 emissions from Local Authority operations1 have fallen to 83,992 tonnes in 2017/18 from 86,684 the previous year (a reduction of 33.30% since 2011/12), keeping the County Council on track to meeting its target of 79,080 tonnes by 2020.
- The County Council secured £12.9m funding from Highways England which, together with a £6.6m investment from the County Council, will enable improvements to Junction 9 of the M27 and Parkway South Roundabout, Whitelev.
- £2.8m is being invested in energy programmes, including LED Lighting, Electric Vehicles and Battery Technology, which will deliver at least £450k of revenue savings. The first phase of the LED lighting installation has been completed in 2017/18, with the rest of the programme to be completed in the next two years.

A more extensive list of key performance achievements is included in the Serving Hampshire – 2017/18 Performance Report which will be presented to Cabinet on 18 June 2018.

CO2 emissions data relate to emissions by Hampshire County Council only. This includes Hampshire County Council buildings (including schools, although not Academies and Foundation Schools), street lighting and travel (via data from staff mileage claims and the Hampshire Transport Management fleet).

## The County Council's Financial Performance

### **Revenue Position**

The deliberate strategy that the County Council has followed to date for dealing with grant reductions during the prolonged period of tight spending control, which involves planning ahead of time, making savings in advance of need and using those savings to help fund transformational change to generate the next round of savings, is well documented.

In line with this financial strategy savings targets for 2017/18 were approved as part of the 2015/16 budget setting process and detailed savings proposals were developed through the Transformation to 2017 (Tt2017) Programme and approved by Executive Members, Cabinet and County Council in September and October 2015. Given this position, no new savings proposals were presented as part of the 2017/18 budget setting process and the Tt2017 Programme was to achieve savings of £98m which were incorporated into the revenue budget.

The County Council set a balanced 2017/18 budget that made provision for further funding within contingencies for children's social care and that addressed the rising cost of adults' social care, as well as providing one off resources that will help the County Council to face its inevitable future financial pressures.

In 2016/17 the government implemented a clear shift in council tax policy and assumed that local authorities would put up their council tax by the maximum permissible each year in the period to 2020.

In line with changes to government policy (including the further flexibilities granted in the local government finance settlement) in recognition of the pressures facing local authorities due to the growing cost of adult social care, a 4.99% increase in council tax was approved at the meeting of Full Council in February 2017.

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

	2016/17	2017/18
	%	%
Council Tax	29	30
Business Rates	2	2
General Government Grants	10	7
Fees, Charges and Interest	14	14
Specific Government Grants	45	47
Total	100	100

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

	2016/17	2017/18
	%	%
Staff Costs	48	50
Running Expenses	50	49
Capital Financing	2	1
Total	100	100

The County Council is responsible for providing a wide range of services, by far the biggest is education and there are over 500 schools within Hampshire, some of which have converted to Academy status and are not shown in the County Council's accounts. In 2017/18 the split of expenditure across the key service areas was as follows:

	2016/17	2017/18
	%	%
Adults' Health and Care	25	25
Children's Services – Schools	47	48
Children's Services – Non Schools	10	9
Economy, Transport and Environment	9	9
Policy and Resources	8	8
Other Services	1	0
Total	100	100

The budget for 2017/18 was approved by the County Council on 16 February 2017 and the budget requirement (which is the net budget met by council tax, business rates and government grant) for 2017/18 was set at £729.4m.

This reflected the reduction in government grant and the clear shift in council tax policy from the Government who assumed that local authorities would put up their council tax by the maximum permissible without a referendum each year in the period to 2020. For Hampshire County Council this was 4.99% per annum. This included an extra 2% flexibility to pay for the increasing costs of adults' social care further to which greater flexibilities were announced in the local government finance settlement to bring forward some of this increase and to raise the precept by 3% in 2017/18 and 2018/19 within the cap of 6% over the three years to 2020.

More information about the budget originally set for 2017/18 is included in the Revenue Budget and Precept 2017/18 and Capital Programme 2017/18 – 2019/20 Report and in the 2017/18 Budget Book.

During 2017/18 there have been a number of changes to the original approved budget, some of which have already been reported to Cabinet.

The County Council has continued to demonstrate strong financial stewardship over this extremely challenging period. At the end of 2017/18, departmental net expenditure was £10.4m lower than budgeted, against an overall gross budget of approaching £1.9bn, a variance in the region of 0.5%. This position reflects the County Council's continuing successful financial strategy of early delivery of resources from proposals in advance of need which provides funding that can then be used to meet the costs of change, to cash flow the delivery of savings or to offset service pressures in future years.

Further savings of £25.1m were achieved largely as a result of changes to capital financing and treasury management activity (including the achievement a return of more than 4% from higher yielding investments) and unused contingencies. Contingencies were in the main set aside in recognition of the increased risk in the budget due to ongoing pressures within social care, together with the fact that a further £98m was removed from the budget in 2017/18.

This amount has been allocated as follows:

- £6.25m added to the Insurance Reserve to increase the reserve in line with most recent actuarial review
- £0.5m added to the Investment Risk Reserve.
- £1.4m allocated to provide funding to undertake vital remedial work to the county's road network following the prolonged cold and wet period. This additional investment, along with the £0.6m from the 2017/18 winter maintenance budget will complement the Government's one-off pothole grant funding of £3.0m in 2018/19 to provide a total sum of £5m for this purpose.
- The balance of approaching £17m is transferred to the Grant Equalisation Reserve (GER) bringing the unallocated amount in the reserve up to circa £29.4m, in preparation for any future draw required beyond 2020

The overall position is shown in the table overleaf and further information is included in the End of Year Financial Report 2017/18 which will be considered by the County Council's Cabinet on 18 June 2018:

	Final Budget 2017/18	Outturn 2017/18	Variance
	£'000	£,000	£,000
Adults' Health and Care	368,800	368,800	0
Children's - Schools	790,204	790,204	0
Children's - Non schools	171,150	171,150	0
Economy, Transport and Environment	110,916	105,934	(4,982)
Policy and Resources	109,209	103,758	(5,451)
Departmental Expenditure	1,550,279	1,539,846	(10,433)
Specific Grants	(886,278)	(886,278)	0
Other Costs Not Allocated to Services	40,696	23,757	(16,939)
Total Cost of Services	704,697	677,325	(27,372)
Capital Financing Costs	29,918	22,940	(6,978)
General Grants	(23,090)	(24,389)	(1,299)
Revenue Contributions to Capital	14,708	555	(14,153)
Business Units (Net Trading Position)	260	67	(193)
Net Revenue Budget	726,493	676,498	(49,995)
Contributions to / (from) Reserves and	l Balances:		
Earmarked Reserves	5,479	55,266	49,787
Trading Unit Reserves	(1,575)	(1,367)	208
General Fund Balance	900	900	0
Budget Requirement	731,297	731,297	0
Funded By:			
Business Rates and Grant	(158,200)	(158,200)	0
Collection Fund Deficits / (Surpluses)	(6,267)	(6,267)	0
Council Tax Requirement	566,830	566,830	0

## Capital

The three year capital programme for 2017/18 to 2019/20 was approved by the County Council alongside the revenue budget and precept on 16 February 2017 and more information about this can be found in the <a href="Revenue Budget and Precept 2017/18">Revenue Budget and Precept 2017/18 and Capital Programme 2017/18 — 2019/20 Report and in the 2017/18 Budget Book</a>.

In 2017/18 the County Council spent £208.7m on capital projects, £29.4m less than the revised budget and this spend is summarised overleaf along with the proposed method of financing:

	Actual £'000
Adult Services	25,090
Children's Services	62,261
Economy, Transport and Environment	74,542
Policy and Resources	46,771
Total Capital Expenditure	208,664
Funded by: Prudential Borrowing:	
For Capital Schemes	32,959
Repayments of Specific Schemes	(12,553)
Capital Grants	93,566
Contributions from Developers and Outside Agencies	66,810
Capital Receipts	27,327
Contributions from Reserves	1,761
Revenue Contributions	12,947
Transfer to the Capital Reserve	(14,153)
Total Capital Financing	208,664

In addition to this spend, during 2017/18, the Enterprise M3 Local Enterprise Partnership (EM3 LEP) invested £16.9m in capital projects within the M3 corridor. This spend is matched by grants and included in the annual accounts, as the Council is the Accountable Body for the EM3 LEP.

Good progress is being made given the significant size of the overall capital programme and the proportion of the 2017/18 programme committed in the year, at £221.5m, is higher than the level achieved in 2016/17 of £196.5m.

	2016/17 £m	2017/18 £m
Committed	196.5	221.5
Carried Forward	121.6	134.4
Total Programme	318.1	355.9
Percentage Committed	61.8%	62.2%

Further information is provided in the End of Year Financial Report 2017/18 which will be considered by the County Council's Cabinet on 18 June 2018.

### **Treasury Management and Prudential Indicators**

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

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

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

All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2017/18, and all relevant statute, guidance and accounting standards. In addition, the County Council has complied with all of the prudential indicators set in its Treasury Management Strategy.

At 31 March 2018 the County Council held £288m of loans, (a decrease of £45m on the previous year) as part of its strategy for funding previous years' capital programmes. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective.

The County Council has held invested funds representing income received in advance of expenditure plus balances and reserves held. During 2017/18 the County Council's investment balances have ranged between £513m and £659m. Both the CIPFA Code and the government guidance require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Further information is provided in the End of Year Financial Report 2017/18 which will be considered by the County Council's Cabinet on 18 June 2018.

### **Reserves and Balances**

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

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

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

At the end of the 2017/18 financial year the total reserves held by the County Council together with the general fund balance stand at more than £645.6m an increase of just under £121.5m on the previous year. The increase in reserves is largely due to capital grants unapplied received in advance of spend, for both the County Council and the EM3 LEP, with the latter being part of a deliberate strategy to ensure that major projects are approved based on the outcomes they will deliver rather than the speed at which funding provided by the Government can be spent.. It also reflects the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery, as well as an increase in the GER to enable the County Council to continue its financial strategy, and to allow delivery of the more complex savings to be achieved within the Tt2019 Programme over the two years.

The net impact of the changes in the revenue account during 2017/18 mean that the GER will stand at almost £74.9m, which is in line with the financial strategy of supporting the revenue spend position as savings are developed and delivered on a two year cycle. Provision is being made for a draw in 2018/19 in order to give the County Council the time and capacity to implement the Tt2019 Programme and to cash flow the safe delivery of the programme so as we can complete the transformation to take us to 2019/20, and plan sensibly for future years.

In the period to 2021/22, the unallocated amount remaining in the reserve will be £29.4m in preparation for any future draw required beyond 2020.

The current strategy that the County Council operates works on the basis of a twoyear cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years with deficits in the intervening years being met from the GER. Building the provision within the GER will support the revenue position in future years, as set out in the MTFS, in order to give the County Council the time and capacity to implement the next phase of transformation to take us to 2021/22.

The table below summarises the forecast position for the GER before any requirement to balance the budget in 2020/21 or to provide corporate funding to cash flow the next stage of transformation which is likely, given the experience of Tt2019; although the scale is unknown at this stage:

GER
£'000
74,870
(26,435)
21,000
(40,000)
29,435

Where possible, the County Council will continue to direct spare one off funding into this reserve as part of its overall longer term risk mitigation strategy, which has served it very well to date

Departmental reserves have increased by almost £1.2m, representing the net early achievement of savings against the Tt2019 Programme after substantial transformation costs have been met in year. These reserves will be used to help fund the necessary changes and investment required to deliver the savings plans over the course of the current financial year and to cash flow the delivery of savings or offset service pressures.

The following table summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2016/17:

	Balance 31/03/2017 £'000	Balance 31/03/2018 £'000	% of Total
Revenue Reserves:			
General Fund Balance	(21,498)	(22,398)	3.5
HCC Earmarked Revenue Reserves			
Fully Committed to Existing Spend Programm	(179,302)	(196,571)	30.4
Departmental / Trading Reserves	(98,411)	(99,660)	15.4
Risk Reserves	(22,071)	(27,571)	4.3
Corporate Reserves	(79,392)	(115,653)	17.9
HCC Earmarked Revenue Reserves	(379,176)	(439,455)	68.1
Non HCC Earmarked Revenue Reserves	(48,075)	(41,695)	6.5
Total Revenue Reserves and Balances	(448,749)	(503,548)	78.0
Total Capital Reserves and Balances	(75,415)	(142,069)	22.0
Total Reserves and Balances	(524,164)	(645,617)	100.0

The biggest proportion of reserves are those that are fully committed to existing spending programmes and almost £140m of this funding is required to meet commitments in the approved capital programme.

In addition a further £142m is held within capital reserves and balances, although of this sum more than £36m relates to the EM3 LEP which is included in the annual accounts, as the Council is the Accountable Body. These reserves hold capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

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

The County Council has no control over Non HCC Earmarked Reserves the majority of which belong to schools, but these must be reflected in the final accounts each year - they do not include the reserves of Academy Schools.

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

Whilst the overall level of reserves currently exceeds £0.5 billion it is anticipated that reserves will fall at the end of 2018/19 and then rise again in preparation for a large

draw to support the budget in 2020/21 with the overall trend showing a decline as we move through the next decade.

The apparent lack of understanding of local authority reserves continues to be a national issue and in response some indicative work by the Local Government Association highlighted that for local government collectively, after earmarked or committed reserves had been excluded, the remaining uncommitted reserves only left enough money to run services for around 25 days. For the County Council the same exercise has been repeated and gives a figure of just over 27 days, highlighting once again that reserves offer no long term solution to the financial challenges we face. Correctly used however, they do provide the time and capacity to properly plan, manage and implement savings programmes as the County Council has demonstrated for many years now.

Further information is provided in Note 4 and in Appendix 8 to the MTFS approved by the County Council in November 2017 (Agenda Item 40), including in more detail the purpose for which the reserves are held and in particular why the majority of these reserves cannot be used for other reasons.

### **Hampshire Pension Fund**

The Hampshire Pension Fund is part of the Local Government Pension Scheme and is administered by Hampshire County Council on behalf of the 333 other employers in the scheme. As at 31 March 2018, the net assets of the Fund were valued at £6.6bn. The Pension Fund's accounts are included as part of the County Council's accounts on page 117.

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2016. In accordance with the regulations the Actuary's triennial valuation is calculated on a different basis to the calculation of employers' individual pension fund liability for inclusion in their accounts under IAS19.

## **County Council's Pension Fund Liability**

The County Council's own net pension liability is included in the balance sheet in accordance with accounting standards. The net liability has increased from £1,2017m at 31 March 2017 to £1,340m at 31 March 2018. Whilst the value of fund assets has increased by £85m, this has been offset by a higher increase in liabilities following changes in the actuary's assumptions reflecting a higher rate of future inflation and increased longevity.

The net loss is shown in the Comprehensive Income and Expenditure Statement and then transferred to the Pension Reserve and does not impact on the General Fund balance. Statutory arrangements for funding the net pension liability mean that the financial position of the Authority remains healthy as the deficit will be covered by increased contributions over the remaining life of employees (i.e. before payments fall due), as assessed by the scheme actuary. Further information can be obtained from Note 24 to the accounts.

## **Corporate Risks**

Hampshire County Council recognises that we live in an uncertain world, where the people, environment and communities of Hampshire may be at risk. Risk Management is the framework by which the County Council can view, manage and respond to risk, both threats and opportunities, in a robust, systematic and documented way.

The County Council has a track record of successful risk management and innovative service delivery initiatives, and has had a mature risk management framework and associated policies for over 15 years.

The County Council has successfully embedded risk management into many of its business as usual practices. Benchmarking exercises with other public sector organisations in 2015 indicated that the maturity of Hampshire County Council's risk management framework against the Alarm National Risk Management Performance Model was among the top quartile of County Councils.

The County Council has undertaken an unprecedented programme of change. It has been successful to date, partly because it has taken a proactive and dynamic approach to managing risk.

The County Council's approach to risk is based on the principles outlined in the International Standard on Risk Management, ISO 311000.

The Corporate Risk Register plays an integral role to support production of the Corporate Plan and is subject to annual review by the Audit Committee when it approves the final accounts. There is a Risk Management Board that oversees the management of risk in the County Council and departments are required to continually assess risks as part of their day to day activities and in particular for major projects under their control.

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

Assurance on our services is provided by Internal Audit and our External Auditors.

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

## **Summary Position**

It is clear that the County Council's financial and non financial performance in 2017/18 continues to be strong.

The revenue outturn, with savings against departmental budgets of £10.4m after substantial transformation costs have been met in year (largely due to the early delivery of resources) and £25.1m against non-departmental budgets, is testament to the strong financial focus that has been maintained throughout the year. This has allowed the County Council to set aside resources that can then be used to meet the costs of change, to cash flow the delivery of savings or to offset service pressures in future years.

In 2017/18 the ambitious capital programme has seen schemes costing £221.5m started from the approved capital programme for the year of £344.6m and capital payments of £208.7m incurred which can be financed within available resources.

All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2017/18, the County Council has complied with all of the prudential indicators set in its Treasury Management and has sufficient reserves and balances to provide financial resilience for 2018/19 and future years.

In 2017/18, Hampshire County Council has faced and dealt successfully with significant change and this change will continue and indeed accelerate as the Tt2019 Programme progresses. Whilst Tt2019 represents an immense challenge, the County Council does have significant capability and experience to tackle the task and we do need to remember that with other parts of public services facing their own fiscal challenges, there are clear opportunities for real service transformation to come to the fore. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, Hampshire County Council is in a strong position as it moves into 2018/19. As tough as the forward agenda is, we also know that the County Council is as well placed as any other local authority to deliver on the continuing financial challenges that apply in the sector.

## Where you can get further information

You can get more information about the accounts from the Director of Corporate Resources, Hampshire County Council, The Castle, Winchester, SO23 8UB. Telephone: (01962) 847533, e-mail: budget@hants.gov.uk.

## Changes to the accounts

Nationally, the Code of Practice for Local Authority Accounting introduced no significant changes for the 2017/18 statement of accounts. Locally, we took the opportunity to streamline the document by changing the presentation of the accounting policies. Instead of having one long section of all accounting policies at the beginning of the notes, the policies are now inserted in each relevant disclosure note, with the more general policies included towards the end of the notes. In addition, a small number of disclosure notes have been discontinued as they are not material to the understanding of the financial position of the County Council.

## **Explanation of the Statement of Accounts**

The Financial Statements bring together all the financial activities of the County Council for the year and its financial position as at the 31 March 2018. They detail both revenue and capital elements for the General Fund and separately provide detail for the Pension Fund.

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

The accounts for 2017/18 are set out on pages 28-156.

### They consist of:

- Statement of Responsibilities for the Statement of Accounts Outlines the key responsibilities in respect of the accounts, together with statements from the Chief financial Officer and Chairman of the Audit Committee.
- **Movement in Reserves Statement** Analyses the change in net worth between the general fund, other useable reserves and unusable reserves.
- Balance Sheet This sets out assets and liabilities at 31 March 2018 compared with 31 March 2017.
- Cash Flow Statement This summarises the movement in cash and cash equivalents during the course of the year.
- Comprehensive Income and Expenditure Statement Shows the accounting cost in the year of providing services measured in accordance with international accounting standards rather than on the basis of the costs that are required to be financed from taxation.
- Notes to the Accounts Which explain some of the key items and disclosures in the accounts.

 Pension Fund Accounts – These are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies.

## **Relationship between Accounting Statements**

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

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

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

## Where you can get further information

You can get more information about the accounts from the Director of Corporate Resources, Hampshire County Council, The Castle, Winchester, SO23 8UB, Telephone: (01962) 847533, e-mail: budget@hants.gov.uk

#### 1. The Council's responsibilities

The Council is required to:

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

#### The Chief Financial Officer's responsibilities 2.

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

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

- Selected suitable accounting policies and applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice

The Chief Financial Officer has also:

- Kept proper accounting records which are up to date
- Taken reasonable steps to prevent fraud and other irregularities.

#### 3. The Chief Financial Officer's Statement

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council as at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

Carolyn Williamson

Carolyn Williamson Chief Financial Officer and Section 151 Officer 24 May 2018

## **Movement in Reserves Statement**

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

	General	Capital Grants	Total		
	Fund l	Jnapplied	Usable	Unusable	Total
	Balance*	Reserve	Reserves	Reserves	Reserves
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2016	(444,450)	(52,844)	(497,294)	(2,084,172)	(2,581,466)
EM3 Local Enterprise Partnership debtors				(11,566)	(11,566)
Total comprehensive expenditure and income Adjustments between accounting basis &	23,519		23,519	2,851	26,370
funding basis under regulations (note 2)	(27,818)	(22,571)	(50,389)	50,389	0
Increase (-) / decrease in Year	(4,299)	(22,571)	(26,870)	53,240	26,370
Balance at 31 March 2017	(448,749)	(75,415)	(524,164)	(2,042,498)	(2,566,662)

<sup>\*</sup> includes earmarked reserves

	General	Capital Grants	Total		
	Fund l	Jnapplied	Usable	Unusable	Total
	Balance*	Reserve	Reserves	Reserves	Reserves
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2017	(448,749)	(75,415)	(524,164)	(2,042,498)	(2,566,662)
EM3 Local Enterprise Partnership debtors				(7,550)	(7,550)
Total comprehensive expenditure and income Adjustments between accounting basis &	(57,059)		(57,059)	(70,278)	(127,337)
funding basis under regulations (note 2)	2,260	(66,654)	(64,394)	64,394	0
Increase (-) / decrease in Year	(54,799)	(66,654)	(121,453)	(5,884)	(127,337)
Balance at 31 March 2018	(503,548)	(142,069)	(645,617)	(2,055,932)	(2,701,549)

<sup>\*</sup> includes earmarked reserves

### **Balance Sheet**

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

31 March 2017 £'000		31 March 2018 £'000	See note
3,912,291 36,262 284,307 41,160 <b>4,274,020</b>	Property, plant & equipment (PPE) Investment property Long-term investments Long-term debtors Long-term assets	· ·	
2,283 162,445 2,996 125,833 55,227 348,784	Current assets held for sale Short-term investments Inventories Short-term debtors Cash and cash equivalents Current assets	3,163 243,930 2,930 122,502 24,588 <b>397,113</b>	22c
(172,066) (40,665) (6,802) (13,227) (36,928) (269,688)	Short-term Creditors Short-term borrowing Deferred liability repayable within one year Grants receipts in advance - revenue Grants receipts in advance - capital Current liabilities	(180,617) (37,625) (7,168) (6,203) (20,454) <b>(252,067)</b>	22d 18 6
79,096	Net current assets	145,046	
(1,207,300) (25,545) (319,704) (164,156) (69,749) (1,786,454)	Net liability related to defined benefit pension schemes Provisions Long-term borrowing Deferred liabilities Developers' contributions Long term liabilities	(1,340,090) (28,167) (279,960) (156,988) (90,076) (1,895,281)	23 22d 18 22f
2,566,662	Total net assets	2,701,549	
	Financed by:		
(448,749) (75,415) <b>(524,164)</b>	Usable reserves General Fund and earmarked reserves Capital grants unapplied reserve Usable reserves	(503,548) (142,069) <b>(645,617)</b>	
(2,042,498)	Unusable reserves	(2,055,932)	3
(2,566,662)	Total Reserves	(2,701,549)	

Signed: Carolyn Williamson Chief Financial Officer

Date: 24 May 2018

## **Cash Flow Statement**

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

2016/17		2017/18	0)
£'000	_	£'000	Note
23,519	Net (surplus) or deficit on the provision of services	(57,059)	
(193,928)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(216,788)	27a
139,212	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	219,490	27a
(31,197)	Net cash inflow from Operating Activities	(54,357)	
8,493	Investing Activities	36,734	27b
21,812	_Financing Activities	48,262	27b
(892)	Net (increase) or decrease in cash and cash equivalents	30,639	
(54,335)	Cash and cash equivalents at the beginning of the reporting period	(55,227)	
(55,227)	Cash and cash equivalents at the end of the reporting period	(24,588)	22a

# **Comprehensive Income and Expenditure Statement**

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

# **Comprehensive Income and Expenditure Statement**

	2016/17				2017/18		
ਲ 6 6 6 6 6 7 8 8 8 8 8 8 8 8 8 8 8 8 8 8	000.3 Gross Income	3.000 Net expenditure		ਲ 0 6 6 6 6 6 6 7 7 8 8 8 8 8 8 8 8 8 8 8 8	000.3 Gross Income	3.00 Net expenditure	Note
490,204 942,811 195,317 185,980 164,254	(164,931) (835,890) (27,677) (35,558) (46,145) (2,695)	106,921 167,640 150,422 118,109	Adults' Health and Care Schools Children's Services Non-Schools Economy, Transport & Environment Policy & Resources Other items not allocated to services	499,259 975,999 192,540 181,975 169,961 8,935	(188,522) (846,435) (27,299) (36,629) (44,371) (2,326)	129,564 165,241 145,346	
1,992,896	(1,112,896)	880.000	Cost of Services	2,028,669	(1,145,582)	883,087	11
1,966 169 60,337	(4,375) (14,303) (180,779) (45,660) (538,998) (134,838)	(2,409) 169 46,034	Other operating expenditure (Gain)/Loss on disposal of assets Assets transferred to academy/foundation trust schools Total financing and investment income & expenditure  Taxation and non-specific grant income Non-ringfenced government grants Locally retained business rates Council tax income Capital grants and contributions Total taxation and non-specific gr	9,084 21,474 64,198	(27,326) (59,851) (137,697) (44,073) (573,793) (192,162)	(18,242) 21,474 4,347 (947,725)	
			(Surplus)/Deficit on the provision			(57,059)	
	(125,579) 128,430	,,	Net gains on revaluation of fixed and sale assets  Actuarial loss/(gain) on pension fund liabilities	available for	(143,808) 73,530	( , , 3)	3 24c
		2,851	Other Comprehensive (Income)/Ex	xpenditure		(70,278)	
		26,370	Total Comprehensive (Income)/Ex	penditure		(127,337)	

## **Notes to the Core Financial Statements**

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## 1 Expenditure and Funding Analysis

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

Net Expenditure chargeable to the General Fund Balance	2016/17 Adjustments between accounting and funding basis (see note 2)	Net expenditure in the CIES		Net Expenditure chargeable to the General Fund Balance	2017/18 Adjustments between accounting and funding basis (see note 2)	Net expenditure in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
370,286	(45,013)	325,273	Adults' Health and Care	368,800	(58,063)	310,737
773,770	(666,849)	106,921	Schools	790,204	(660,640)	129,564
173,878	(6,238)	167,640	Children's Services Non-Schools	171,150	(5,909)	165,241
112,618	37,804	150,422	Economy, Transport & Environment	105,934	39,412	145,346
105,091	13,018	118,109	Policy & Resources	103,758	21,832	125,590
(850,288)	850,288	0	Specific Grants	(886,278)	886,278	0
27,355	(15,720)	11,635	Other items not allocated to services	23,757	(17,148)	6,609
712,710	167,290	880,000	Net cost of services	677,325	205,762	883,087
(717,009)	(139,472)	(856,481)	Other income and expenditure	(732,124)	(208,022)	(940,146)
(4,299)	27,818	23,519	(Surplus) or deficit on the provision of services	(54,799)	(2,260)	(57,059)
(444,450)			Opening General Fund (including earmarked reserves) balance at 1 April Plus (surplus)/deficit on provision of	(448,749)		
(4,299)			services	(54,799)		
(448,749)			Closing General Fund (including earmarked reserves) balance at 31 March	(503,548)		

# 2 Adjustments between funding and accounting basis

## 2017/18

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Adults & Health	10,158	10,892	(79,113)	(58,063)
Schools	102,854	16,804	(780,298)	(660,640)
Children's Services non-schools	2,175	3,055	(11,139)	(5,909)
Economy, Transport and Environment	47,920	2,849	(11,357)	39,412
Policy and Resources	11,998	12,497	(2,663)	21,832
Other items not allocated to services:				
Specific Grants	0	0	886,278	886,278
Other	0	(17,096)	(52)	(17,148)
Net cost of services	175,105	29,001	1,656	205,762
Other income and expenditure from the funding analysis	(247,983)	30,259	9,702	(208,022)
Difference between the General Fund surplus or deficit and the Comprehensive Income and Expenditure surplus or deficit	(72,878)	59,260	11,358	(2,260)
Note a) Adjustments for capital purposes: Charges to services for depreciation and impairment	172,397			172,397
Service revenue expenditure funded from capital	172,007			172,007
under statute	4,093			4,093
Current value of assets disposed	9,084			9,084
Current value of assets transferred to academies	21,474			21,474
Statutory minimum revenue provision for capital financing External contribution to minimum revenue	(11,836)			(11,836)
provision	705			705
Revenue contributions to capital	(555)			(555)
Capital grants and contributions applied (note i)  Movement in the market value of investment	(192,162)			(192,162)
properties	(48,752)			(48,752)
Total transferred to capital adjustment account (including note i) Transfer asset sale proceeds to capital receipts	(45,552)			(45,552)
reserve	(27,326)			(27,326)
Note a) Total	(72,878)			(72,878)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Note b) Adjustments for pensions: Current service cost of funded local government				
pensions		113,860		113,860
Past service cost of funded local government		-,		2,222
pensions		1,460		1,460
Interest on net pension liability		30,260		30,260
Total transferred to Pension Reserve		145,580		145,580
Employer's contributions payable to the pension fund transferred from the Pension Reserve		(96.220)		(96.320)
Note b) Total		(86,320) <b>59,260</b>		(86,320) 59,260
Note by Total		39,200		39,200
Note c) Other adjustments:				
Difference between accrued cost of employee holiday benefits and those taken, transferred to the accumulated Absences Account			1,656	1,656
Amortisation of premiums and discounts on financial instruments transferred to the Financial Instruments Adjustment Account			9,582	
·				9,582
Difference between accrued income from council tax and business rates and that required by statute to be paid over by Billing Authorities, transferred to the Collection Fund Adjustment			122	
Account				122
Rounding adjustment			(2)	(2)
Note c) Total			11,358	11,358
Total adjustments				(2,260)
(note i) transfer from capital grants unapplied				66 654
reserve  Total adjustments between accounting and fu	ndina hasis un	der statute		66,654 64,394
Total adjustification between accounting and tu	nang basis un	uei siatute		04,034

## 2016/17

2010/17	Adjustments	Net change for the		
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	for Capital Purposes (Note a)	Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Adults & Health	7,024	6,161	(58,198)	(45,013)
Schools	91,236	6,712	(764,797)	(666,849)
Children's Services non-schools	4,850	(393)	(10,695)	(6,238)
Economy, Transport and Environment	46,906	1,650	(10,752)	37,804
Policy and Resources	8,383	6,327	(1,692)	13,018
Other items not allocated to services:				
Specific Grants	0	0	850,288	850,288
Other items not allocated to services	7	(15,627)	(100)	(15,720)
Net cost of services	158,406	4,830	4,054	167,290
Other income and expenditure from the funding				
analysis	(175,512)	34,040	2,000	(139,472)
Difference between the General Fund surplus				
or deficit and the Comprehensive Income and Expenditure surplus or deficit	(17,106)	38,870	6,054	27,818
and Experientale surplus of deficit				
Note a) Adjustments for capital purposes:				
Charges to services for depreciation and				
impairment	153,860			153,860
Service revenue expenditure funded from capital	5.040			5.040
under statute	5,818			5,818
Current value of assets disposed	1,964			1,964
Current value of assets transferred to academies Statutory minimum revenue provision for capital	169			169
financing	(12,144)			(12,144)
External contribution to minimum revenue	(12,11)			(,)
provision	705			705
Revenue contributions to capital	(24,226)			(24,226)
Capital grants and contributions applied (note i)	(134,837)			(134,837)
Movement in the market value of investment				
properties	(4,041)			(4,041)
Total transferred to capital adjustment account (including note i)	(12,732)			(12 722)
Transfer asset sale proceeds to capital receipts	(12,732)			(12,732)
reserve	(4,374)			(4,374)
Note a) Total	(17,106)			(17,106)

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Adjustments (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Note b) Adjustments for pensions: Current service cost of funded local government				
pensions		82,050		82,050
Past service cost of funded local government pensions		1,280		1,280
Interest on net pension liability		34,040		34,040
Total transferred to Pension Reserve		117,370		117,370
Employer's contributions payable to the pension		,		,
fund transferred from the Pension Reserve		(78,500)		(78,500)
Note b) Total		38,870		38,870
Note c) Other adjustments:  Difference between accrued cost of employee holiday benefits and those taken, transferred to the accumulated Absences Account			4,054	4,054
Amortisation of premiums and discounts on financial instruments transferred to the Financial Instruments Adjustment Account			(139)	(139)
Difference between accrued income from council tax and business rates and that required by statute to be paid over by Billing Authorities, transferred to the Collection Fund Adjustment Account			2,139	2,139
Note c) Total			6,054	6,054
Total adjustments (note i) transfer from capital grants unapplied reserve				<b>27,818</b> 22,571
Total adjustments between accounting and fu	nding basis un	der statute		50,389

### 3 Unusable reserves

	Balance 1 April	Movement	Balance 31 March	
	2017 £'000	£'000	2018 £'000	Note
Revaluation reserve				
	(1,018,275)	(107,208)		
Capital adjustment account	(2,233,732)	(51,009)	(2,284,741)	<i>3b</i>
Pensions reserve	1,207,300	132,790	1,340,090	3c
Accumulated absences account	12,127	1,656	13,783	3d
Financial instrument adjustment account	2,613	9,582	12,195	Зе
Collection fund adjustment account	(8,177)	122	(8,055)	3f
Available for sale Financial assets	(4,354)	633	(3,721)	<i>3g</i>
	(2,042,498)	(13,434)	(2,055,932)	

### 3a Revaluation reserve

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

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

2016/17		2017/18
(923,597)	Balance at 1 April	(1,018,275)
	(Surplus) or deficit on revaluation of non-current assets not posted to	
(123,059)	the Surplus or Deficit on the Provision of Services	(144,441)
	Difference between fair value depreciation and historical cost	
27,244	depreciation	31,019
	Write off net gains for assets transferred	
0	to Academy/Foundation schools	2,949
1,137	Accumulated gains on assets sold, scrapped or transferred to/from	3,265
	current assets	
28,381	Amount written off to the Capital Adjustment Account	37,233
(1,018,275)	Balance at 31 March	(1,125,483)

## 3b Capital adjustment account

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

2016/17		20	17/18
£'000		£'000	£'000
(2,199,250)	Balance brought forward 1 April		(2,233,732)
(11,566)	EM3 Local Enterprise Partnership debtors		(7,550)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
153,860	Charges for depreciation and impairment of noncurrent assets	172,397	
5,818	Revenue expenditure funded from capital under statute	4,093	
1,964	Assets disposals current value	9,084	
169	Assets transferred to Academy/Foundation schools current value	21,474	
(2,049,005)			(2,034,234)
(28,381)	Adjusting amounts written out of Revaluation Reserve		(37,233)
	Net amount written out of the cost of assets consumed		
(2,077,386)	in the year		(2,071,467)
	Capital financing applied in the year:		
(7,203)	Capital receipts applied		(32,241)
(12,144)	Statutory minimum revenue provision for capital financing		(11,836)
	External contribution to minimum revenue provision		705
	Revenue contributions to capital expenditure		(555)
	Capital grants and contributions applied		(125,508)
(155,134)			(169,435)
(4,041)	Movement in the market value of investment properties		(48,752)
2,829	Write down of capital debtors		4,913
(2,233,732)	Balance as at 31 March		(2,284,741)

#### 3c Pensions reserve

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

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

2016/17	2017/18
£'000	£'000
1,040,000 Balance at 1 April	1,207,300
128,430 Actuarial losses / (gains) on pensions assets and liabilities	73,530
117,370 Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	145,580
(78,500) Employer's pensions contributions and direct payments to pensioners payable in the year	(86,320)
1,207,300 Balance at 31 March	1,340,090

#### 3d Accumulated absences account

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

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

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

#### 3e Financial Instruments Adjustment Account

The County Council uses this account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, and reversed out of the General Fund balance to the Financial Instruments Adjustment Account in the Movement in reserves statement. The expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax. During 2017/18 the County Council opted for early redemption of two loans and the premium is being charged to the General Fund over the life of the replacement loans. There are 33 years remaining.

## 3f Collection fund adjustment account

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

#### 3g Available for sale financial assets

The available for sale financial asset reserve contains the gains made by the County Council arising from increases in the value of its available for sale financial assets.

#### 4 General Fund and earmarked reserves

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

	Balance 1 April 2016 £'000	Movement in 2016/17 £'000	Balance 31 March 2017 £'000	Movement in 2017/18 £'000	Balance 31 March 2018 £'000	See note
Revenue Reserves						
A. General Fund Balance	(20,598)	(900)	(21,498)	(900)	(22,398)	а
B. County Council Earmarked Rever	nue Reserves	<b>;</b>				
Fully Committed to Existing Spend I	Programmes					
Revenue Grants Unapplied	(35,530)	17,779	(17,751)	(3,790)	(21,541)	b
General Capital Reserve	(124,137)	(1,938)	(126,075)	(13,570)	(139,645)	С
Street Lighting Reserve	(9,237)	(16,850)	(26,087)	(404)	(26,491)	d
Public Health Reserve	0	(7,412)	(7,412)	(425)	(7,837)	е
Other	(2,091)	114	(1,977)	920	(1,057)	f
	(170,995)	(8,307)	(179,302)	(17,269)	(196,571)	
Departmental / Trading Reserves						
Trading Accounts	(15,671)	2,918	(12,753)	1,783	(10,970)	g
Departmental Cost of Change	(53,926)	(31,732)	(85,658)	(3,032)	(88,690)	_
.,	(69,597)	(28,814)	(98,411)	(1,249)	(99,660)	
Risk Reserves	(33,22)	( 2/2 /	(, ,	( ) - /	(33,333)	
Insurance	(25,423)	4,852	(20,571)	(5,000)	(25,571)	i
Investment Risk	(1,000)	(500)	(1,500)	(500)	(2,000)	
IIIVOSTITICITE TAISK	(26,423)	4,352	(22,071)	(5,500)	(27,571)	•
Corporate Reserves	(20,423)	7,552	(22,071)	(3,300)	(21,311)	
•	(7E 206)	24 451	(40.755)	(24 445)	(74 970)	l,
Grant Equalisation Invest To Save	(75,206)	34,451	(40,755)	(34,115)	(74,870)	
	(9,077)	(22,023)	(31,100)	(1,009)	(32,109)	
Corporate Policy	(5,109)	477	(4,632)	(1,257)	(5,889)	
Corporate Efficiency	(7,902)	7,902	(0.005)	0		n
Organisational Change	(3,593)	688	(2,905)	120	(2,785)	
	(100,887)	21,495	(79,392)	(36,261)	(115,653)	
Total Earmarked Revenue Reserves					,	
available to the County Council	(367,902)	(11,274)	(379,176)	(60,279)	(439,455)	
C. Other Earmarked Revenue Reser	ves					
EM3 LEP Reserve	0	(1,396)	(1,396)	(3,047)	(4,443)	р
Schools Reserves	(55,950)	9,271	(46,679)	9,427	(37,252)	q
Total Revenue Reserves and						
Balances	(444,450)	(4,299)	(448,749)	(54,799)	(503,548)	
D. Capital Reserves						
Capital Grants Unapplied	(52,844)	(22,571)	(75,415)	(66,654)	(142,069)	r
Total Capital Reserves and	(02,011)	(==,011)	(1.5,410)	(55,55 )	(1.12,000)	Ĺ
Balances	(52,844)	(22,571)	(75,415)	(66,654)	(142,069)	
Total Usable Reserves	(497,294)	(26,870)	(524,164)	(121 452)	(645,617)	
TOTAL USADIE RESEIVES	(+31,434)	(20,070)	(524, 104)	(121,453)	(040,017)	1

- a The General Fund Balance is the surplus of revenue income over expenditure. It can be used to supplement income in future years
- b The revenue grants unapplied reserve was established to reflect change in accounting practice under IFRS, requiring grants to be accounted for in advance of the matched spending being incurred, where there is no repayment condition.
- c The general capital reserve is to assist in matching the timing of the availability of capital financing resources with the timing of capital payment.
- d The street lighting reserve represents the anticipated surplus generated by the financial model for this PFI scheme that is invested up front and then applied to the contract payments for future years.
- e The Public Health reserve represents the balance of the ring-fenced government grant carried forward for future Public Health expenditure.
- f Other smaller reserves are sums set aside for specific future purposes.
- g The trading accounts reserve enable business units to carry forward planned surpluses to cover future investment or possible losses.
- h The departmental cost of change reserve enables individual services to carry forward underspendings in order to invest in technology and other service improvements and meet the cost of significant change programmes and restructures
- i The County Council self insures against certain types of risks and the level of the insurance reserve is based on an independent valuation of past claims experience and the level and nature of current outstanding claims.
- j The Investment Risk reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy as a prudent response to targeting investments with higher returns.
- k The grant equalisation reserve is to assist in managing the impact of future grant loss.
- I The invest-to-save reserve is to provide funding for investment which will generate further revenue savings in the future.
- m The corporate policy reserve is available to fund new budget initiatives that are agreed as part of the overall budget. It offers the opportunity to introduce specific service initiatives that might not have otherwise gained funding and are designed to have a high impact on service users or locations where they are applied.
- The corporate efficiency reserve was established to earmark any corporate efficiency savings achieved in advance of their being required for budgetary purposes and has been transferred to the Invest to Save reserve.
- o The organisational change reserve was established in 2010/11 from contributions from the corporate policy and invest to save to fund the additional cost of the voluntary redundancy

scheme implemented to facilitate staffing reductions on a voluntary basis, and provide funding for organisational development.

- p The EM3 LEP reserve represents underspending of EM3 LEP funding carried forward for future expenditure.
- q The purpose of the Schools reserve is to earmark the balance of unspent delegated budgets. They are not available to other services.
- r The capital grants unapplied reserve holds capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

## 5 Financing and investment income and expenditure

2016/17		2017/18
£'000		£'000
26,297	Interest payable	33,938
(9,400)	Interest receivable	(11,164)
(4,041)	Investment property (gains) and losses	(48,752)
34,040	Pension interest	30,260
(862)	(Surplus)/deficit on internal trading undertakings	65
46,034	Total within other operating expenditure	4,347

## 6 Government Grants and other contributions

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

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

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

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

#### **Notes to the Core Financial Statements**

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

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

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

2016/17 £'000	Credited to Taxation and Non Specific Grant Income	2017/18 £'000
(000)	Capital Grants and Contributions:	(4.004)
	2 Year Old Entitlement	(1,394)
· /	Local Sustainable Transport Fund Grant	(16)
	Local Transport Capital Block Funding Grant	(31,179)
	Schools Condition Allocation	(14,939)
V 1	Broadband Delivery UK Grant	(5,321)
	National Productivity Incentive Grant	(5,098)
	EM3 Local Enterprise Partnership	(63,062)
	Environment Agency Disabled Facilities Grant	(149)
	Social Care Capital Grant	(10,694) (1,253)
,	Schools Devolved Formula Capital	(3,507)
•	Schools Capital Maintenance Grant	(1,033)
•	Schools Basic Needs Grant	(38,639)
	Winchester City Council Community Infrastructure Levy	(769)
	Pothole Action Grant	(2,123)
· · · · · · · · · · · · · · · · · · ·	ESFA Free School Grant	(433)
	Swanwick Grant	(970)
,	Priority Schools Building Programme 2 (PSBP2) Grant	(6,093)
,	Developer's contributions	(33,668)
	Other contributions	(18,122)
<b>V</b> 1	Misc. Income	(57)
_	Contributions from other Local Authorities	(465)
42,505	Less: Capital income used to fund revenue expenditure under statute	46,822
(134,838)		(192,162)
(180,779)	Non-ringfenced Government grants	(137,697)
(315,617)	Total	(329,859)

2016/17 £'000	Credited to services	2017/18 £'000
0	Improved Better Care Fund	(17,010)
0	Adults Social Care Implementation	(4,776)
(650)	Local Reform & Community Voices	(660)
	Independent Living Fund	(4,347)
	War Pensions & Social Care Financial Assessments	(539)
	Syrian Resettlement Programme	(710)
	EM3 Local Enterprise Partnership	0
	PFI Street Lighting Grant	(9,373)
	Bikeability Training Grant	(301)
	Local Sustainable Transport Funds	(1.47)
	Flood & Water Management Grant Partners in Practice (PiP)	(147) (1,794)
	Inshore Fisheries & Conservation	(245)
	Other Adult Services Grants	(50)
, ,	Skills for Care Grant	0
· · · · · · · · · · · · · · · · · · ·	Bus Service Operators Grant	(1,524)
,	Step up to Social Work	(312)
	High Needs Strategic Planning Fund	) O
(85)	Other Economy, Transport and Environment Grants	0
(713,871)	Dedicated School's Grant	(724,961)
(14,834)	Universal Infant Free School Meals	(15,792)
,	SEND Pathfinder	0
	PE & Sport Grant	(6,051)
	30 Hours free Childcare	(122)
	Additional Schools Grant	(51)
	School Improvement	(980)
,	Social Work Grants	0
	Schools Condition Allocation	(422)
	Staying Put Grant  Extended Bights to Free Travel	(423) (422)
	Extended Rights to Free Travel New Remand Framework Funding Grant	(47)
	Unaccompanied Asylum Seeking Children Grant	(3,406)
	Libraries - Opportunities for Everyone	(178)
	Supporting Troubles Families Grant	(1,898)
	Sustainable Travel Transition Year Grant	(13)
	Children's Social Care Innovation Programme	O O
(53,492)	Public Health Grant	(52,173)
(936)	Digitalisation Grant	(911)
,	Social Care in Prisons Grant	(119)
	Other Policy and Resources grants	(58)
	Pupil Premium grant	(33,413)
	Education Funding Agency Grant	0
	Skills Funding Agency Grant	(4.000)
V 1	Music Grant Other Children's Services and Education Create	(1,696)
	Other Children's Services and Education Grants	0
	Heritage Lottery Fund Local Welfare Assistance	0 (89)
,	Other Cultural Grants	0
	Other Countryside Grants	0
	SEN Reform and Implementation	(1,687)
	Developers Contributions	(1,689)
(42,505)	Add: Capital income used to fund revenue expenditure	(46,822)
(905,481)	_under statute -	Total (934,789)
(505,401)		(337,103)

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

31 March 2017 £'000	Capital grants receipts in advance	31 March 2018 £'000
(1,853)	Department of Health Social Care Capital Grant	(600)
(18,582)	Local Enterprise Partnership (LEP)	0
(209)	Bordon Eco Town Grant	(209)
(182)	Secure Children's Homes: Swanwick Lodge	0
0	Priority Schools Building Programme 2 (PSBP2) Grant	(498)
(5,165)	Schools Devolved Formula Capital	(4,931)
(8,129)	Department for Transport Grant	(8,387)
0	ESFA Free School Grant	(3)
(2,293)	Early Years 30 Hour Grant	(908)
(2)	Whitehill & Bordon	0
0	DfT Sect 31 Grant - Safer Routes	(253)
(451)	Other Children's Services Grants	(928)
(15)	Sport England Grant	(15)
(47)	Environment Agency Grants	(43)
0	Pot Hole Grant	(3,679)
(36,928)	Total	(20,454)

31 March 2017 £'000	Revenue grants receipts in advance	31 March 2018 £'000
(6,600)	Dedicated Schools Grant	0
(13)	Pupil Premium	(14)
(456)	Bus Service Operators Grant	(1)
0	Univeral Infant Free School Meals	(7)
0	Step up to Social Work	(3)
(126)	Common Assessment Framework Adults Grant	(126)
(936)	Local Enterprise Partnership (LEP)	(765)
	Local Welfare Assistance Grant	(723)
(489)	Flood management	(427)
(1,279)	Single Farm Payments European Grant	(1,261)
(321)	Eco Towns - project funding	(236)
0	Army Covenant Grant	(25)
(123)	One Public Sector Estate 3	0
(420)	One Public Sector Estate 4	(144)
(160)	One Public Sector Estate 5	(135)
0	One Public Sector Estate 6	(50)
(242)	Skills Funding Agency	(503)
0	BPS 2017 Bridging Payment	(142)
	Cass Foundation	(21)
(172)	Rural Payments Agency	(208)
(81)	Other Countryside Grants	(86)
(911)	Transformation Fund	0
0	Land Release Funding	(1,200)
0	Top Up Grant	(107)
(19)	Other Cultural Grants	(19)
(13,227)	Total	(6,203)

## 7 Dedicated Schools Grant (DSG)

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

Details of the deployment of DSG receivable for 2017/18 are as follows:

		Individual	
	Central	Schools	Total
	expenditure	Budget	
	£'000	£'000	£'000
Final DSG for 2017/18 before Academy Recoupment			(893,574)
Academy figure recouped for 2017/18			173,956
Total DSG after Academy recoupment for 2017/18			(719,618)
Brought forward from 2017/18			(6,599)
Agreed use of 2018/19 grant in advance			(4,503)
Agreed initial budgeted distribution in 2017/18	(97,509)	(633,211)	(730,720)
In year adjustments		1,256	1,256
Final budgeted distribution in 2017/18	(97,509)	(631,955)	(729,464)
Less Actual central expenditure	97,509		97,509
Less Actual ISB deployed to schools		631,955	631,955
Carry forward to 2018/19	0	0	0
Agreed use of 2018/19 grant in advance			4,503
Total brought forward from 2018/19			4,503

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

## **Employee benefits**

## Benefits payable during employment

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

#### **Termination benefits**

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

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

## 8a Officer remuneration

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

Number	of employ 2016/17	yees	Including termination payments	Number	Number of employees 2017/18	
Schools	Other	Total	payments	Schools		Total
223	187	410	£50,000 - £54,999	257	221	478
158	123	281	£55,000 - £59,999	165	80	245
132	61	193	£60,000 - £64,999	143	112	255
67	21	88	£65,000 - £69,999	78	46	124
37	49	86	£70,000 - £74,999	39	24	63
14	17	31	£75,000 - £79,999	21	38	59
17	20	37	£80,000 - £84,999	12	13	25
10	13	23	£85,000 - £89,999	12	14	26
3	7	10	£90,000 - £94,999	4	11	15
6	7	13	£95,000 - £99,999	3	8	11
4	5	9	£100,000 - £104,999	1	2	3
3	2	5	£105,000 - £109,999	5	4	9
0	0	0	£110,000 - £114,999	1	1	2
0	1	1	£115,000 - £119,999	0	0	0
0	2	2	£120,000 - £124,999	0	1	1
1	1	2	£125,000 - £129,999	0	2	2
0	0	0	£130,000 - £134,999	0	0	0
0	0	0	£145,000 - £149,999	0	0	0
0	1	1	£155,000 - £159,999	0	0	0
0	1	1	£160,000 - £164,999	0	0	0
0	0	0	£180,000 - £184,999	0	0	0
0	1	1	£185,000 - £189,999	0	0	0
675	519	1 104	-	741	577	1 210
0/5	519	1,194	_		5//	1,318

Numb	er of emp	loyees	Excluding termination	Numb	Number of employees	
	2016/17		payments		2017/18	
Schools	Other	Total	_	Schools	Other	Total
223	190	413	£50,000 - £54,999	256	219	475
158	121	279	£55,000 - £59,999	161	78	239
129	55	184	£60,000 - £64,999	144	111	255
67	19	86	£65,000 - £69,999	77	41	118
36	46	82	£70,000 - £74,999	39	24	63
14	11	25	£75,000 - £79,999	19	38	57
16	18	34	£80,000 - £84,999	11	12	23
9	11	20	£85,000 - £89,999	12	14	26
3	7	10	£90,000 - £94,999	3	11	14
4	5	9	£95,000 - £99,999	3	7	10
3	2	5	£100,000 - £104,999	1	2	3
2	2	4	£105,000 - £109,999	5	4	9
0	0	0	£110,000 - £114,999	1	1	2
0	1	1	£115,000 - £119,999	0	0	0
0	2	2	£120,000 - £124,999	0	1	1
0	0	0	£125,000 - £129,999	0	2	2
664	490	1,154	-	732	565	1,297

# 8b Senior employees' remuneration

This statement covers the remuneration of Chief Officers.

Senior employees 2017/18	Salary, (Including fees and allowances)	Allowances		Compensation for Loss of Office		Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive						
John Coughlan	216,195	-	-	-	-	216,195
Deputy Chief Executive and Director of Corporate Resources and						
Carolyn Williamson	180,019	-	-	-	-	180,019
Director of Children's Services						
Steve Crocker	153,015	-	-	-	21,575	174,590
Director of Adults' Health & Care Graham Allen	153,015	-	-	-	21,575	174,590
Director of Economy, Transport and Environment	144,783	-	-	-	-	144,783
Director of Community, Culture and Business Services	144,783	-	-	-	20,414	165,197
Director of Transformation and Governance	131,361	-	-	-	18,522	149,883
Assistant Chief Executive	98,950	-	-	-	13,952	112,902

note: The Director of Children's Services and Director of Corporate Resources provide services to other organisations for which the County Council receives income as part of wider joint working arrangements

Senior employees 2016/17	Salary, (Including fees and allowances)	Expense Allowances		Compensation for Loss of Office		Total remuneration including pension contributions
	£	£	£	£	£	£
Chief Executive						_
John Coughlan	214,054	-	-	-	-	214,054
Director of Corporate Resources Carolyn Williamson	170,316	-	-	-	-	170,316
Director of Children's Services						
Steve Crocker	150,230	-	-	-	19,680	169,910
Director of Adults' Health & Care	148,344	-	-	-	19,433	167,777
Director of Economy, Transport and Environment	143,349	-	-	-	-	143,349
Director of Community, Culture and Business Services	143,349	-	-	-	18,779	162,128
Director of Transformation and Governance	130,060	-	-	-	17,038	147,098
Assistant Chief Executive	97,970	-	-	-	12,834	110,804

# **8c Termination agreements**

## **Schools 2017/18**

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages	Total redundancy costs in each band £'000
£0 - £20,000	34	92	126	757
£20,001 - £40,000	5	8	13	343
	39	100	139	1,100

# Non schools 2017/18

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages	Total redundancy costs in each band £'000
£0 - £20,000	2	93	95	773
£20,001 - £40,000	1	14	15	381
Total number of packages	3	107	110	1,154

## **Schools 2016/17**

Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total redundancy costs in each band £'000
£0-£20,000	66	93	159	778
£20,001 - £40,000	3	5	8	223
£40,001 +	1	1	2	107
	70	99	169	1,108

Non schools 2016/17  Exit package cost band	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages	Total redundancy costs in each band £'000	
£0 - £20,000	22	187	209	1,678	
£20,001 - £40,000	2	7	9	211	
£40,001 - £60,000	0	1	1	57	
	24	195	219	1,946	

## 9 Members' allowances

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

2016/17 £'000		2017/18 £'000
1,340	Allowances	1,311
85	Expenses	97
1,425	Total	1,408

## 10 External Audit fees

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

2016/17		2017/18
£'000		£'000
	Fees payable to EY with regard to external audit services carried out	
116	by the appointed auditor for the year	117
4	Grant Claims	-
120		117

## 11 Nature of Expenses

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

204047		004740	Note
2016/17 £'000		2017/18 £'000	
		~ ~ ~ ~	
578,273	Employee Benefit Expenses - schools	588,165	а
328,710	Employee Benefit Expenses - other	394,754	a,b
933,327	Other Service Expenses	874,738	С
152,586	Depreciation and Impairment	171,012	d
1,992,896	Total Expenditure	2,028,669	
(946,434)	Grants, contributions and reimbursements	(976,580)	
(166,462)	Fees, charges and other service income	(169,002)	12
(1,112,896)	Total Income	(1,145,582)	
880,000	Net Cost of Services	883,087	

- a) Employee benefit expenses include pay, employer national insurance contributions, employer pension contributions and other employee benefits. Accounting adjustments are then made under IAS19 so that the expenditure in the CIES reflects the current service cost of the benefit granted in the period, rather than the payments made.
- b) For 2017/18, employee benefit expenses includes £36.3 million relating to staff employed within the County Council's internal trading units. In 2016/17, the equivalent figure of £38.4 million is included within other service expenses as part of recharged costs to departments.
- c) Other service expenses includes costs relating to premises, transport, supplies and services. An accounting adjustment is made so that the charge to the CIES also includes revenue expenditure charged to capital under statute (REFCUS).
- d) Depreciation and impairment charges are made to the CIES to reflect the use of fixed assets during the period. These are not chargeable to the general fund.

#### 12 Income received from external customers

2016/17	2017/18
£'000	£'000
(C4, 4O.4), A dulte 9, Lle olth	(00, 400)
(61,134) Adults & Health	(63,492)
(47,350) Schools	(48,614)
(4,929) Children's Services Non-Schools	(5,661)
(16,085) Economy, Transport & Environment	(15,087)
(36,964) Policy & Resources	(36,028)
0 Other items not allocated to services	(120)
(166,462) Total income from external customers analysed by service.	(169,002)

## 13 Related party transactions

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

#### **Central Government**

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

#### **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in note 9. Before every decision making meeting, members are required to disclose any conflicts of interest. There were 22 related party transactions totalling £21,956 arising from disbursements from members' devolved budgets. All such payments were counter signed by a member other than the budget-holding member.

#### Officers

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

## **Limited Companies**

Hampshire County Council owns a 51% share in the Reading Hampshire Property Partnership Ltd (RHPP), which commenced operations on 1 April 2014. This is a public to public venture, based on the Teckal principal, to provide property services to Reading Borough Council. The Board of Directors is made up of two Assistant Directors from Hampshire County Council and two from Reading Borough Council. The turnover during 2017/18 was £1.0 million (£1.6million 2016/17).

#### **Other Public Bodies**

The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees, those of other local authorities in the county area and 333 other contributing scheduled, admitted, community admission, transferee admission, and resolution bodies (303 in 2016/17). The County Council's administration charge to the Pension Fund in 2017/18 was £2.5 million (£2.3 million in 2016/17)

## 14 Collaborative Arrangements and Group Accounts

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

The County Council has pooled budget arrangements with NHS bodies and joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service and Oxfordshire County Council. These involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity. The County Council recognises the assets that it controls and the liabilities that it incurs on its Balance Sheet, and the expenditure it incurs and the share of income it earns from the activity of the operation on its Comprehensive Income and Expenditure Statement.

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

The County Council is the accountable body for the funding of the Enterprise EM3 Local Enterprise Partnership (EM3 LEP). The EM3 LEP will either grant or loan funds to

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

The County Council is corporate trustee or the designated treasurer for a number of trust funds. These are not disclosed in the accounts as they have no effect on the financial performance or position of the County Council. The most recent accounts for trust funds with significant balances can be found in a separate report at http://democracy.hants.gov.uk/Charities' Annual Accounts

## 15 Structured entities – Hampshire Cultural Trust

From November 2014 the Executive Member for Culture, Recreation and Countryside and the Executive Member for Policy and Resources approved the transfer of the Arts and Museums Service from the County Council to an independent charitable trust, the Hampshire Cultural Trust. It has been funded by grants from Hampshire County Council, local district and borough councils, central government bodies such as the Arts Council and by individual donations.

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

The County Council has agreed a level of revenue grant funding with the trust for the first 5 years of its operation, based on the funding that would have been required if the service had remained part of the County Council. The total expected payments remaining amount to £5.1 million with £2.57 million grant due to be paid in 2018/19.

## **Hampshire Cultural Trust Nature of risks**

The maximum exposure to loss from the Trust is the annual grant paid to the Trust for services not yet delivered. At 31 March 2018 the exposure to risk was nil as the service had been received. Future risk is minimised by the terms within the Management and Funding Agreement between the County Council and the Trust.

2016/17		2017/18
£'000		£'000
	Operational land and buildings retained by the County Council and used by the	
44,739	Trust	42,876
2,901	Community assets retained by the County Council and used by the Trust	2,891
0	Collections of heritage assets retained by the County Council and managed by	0
	the Trust (not valued as explained in note 19)	
(2,961)	Annual County Council revenue grant provided to the Trust	(3,195)
(3,202)	Other unrestricted income received by the Trust - (note i)	(5,147)
6,087	Unrestricted expenditure by the Trust - (note i)	7,668
(688)	Trusts' unrestricted reserves - (note i)	(1,634)

note i – These are draft figures, subject to audit of the Trust's accounts. The comparative year figures have been updated to match the audited accounts.

#### 16 Capital financing

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

#### **Capital Financing Requirement**

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

#### Revenue expenditure funded from capital under statute

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

2016/17		2017/18
£'000		£'000
755,695 O <sub>l</sub>	pening capital financing requirement	755,389
C	apital investment:	
147.873 Ca	apital spending on property, plant and equipment	167,711
	evenue expenditure funded by capital under statute	50,915
	pans advanced for capital expenditure	6,904
	ooled Investment Property Fund	0
953,733		980,919
·	unded by	
	unded by: apital receipts	(22.241)
<b>\</b> \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	rants and other income	(32,241) (172,328)
	evenue	(172,320)
		1,206
(7,498)	main contribution	(1,761)
		· · · · · · · · · · · · · · · · · · ·
(12,144) [VII	linimum revenue provision	(11,836)
755,389 C	losing capital financing requirement	763,959
Ex	xplanation of movements in year	
	crease/(decrease) in borrowing (supported by government financial	(000)
(669) as	ssistance)	(689)
Inc	crease/(decrease) in borrowing (unsupported by government	
	nancial assistance)	16,061
(6,754) Ind	crease/(decrease) in borrowing related to PFI contracts	(6,802)
(306) In	crease/(decrease) in Capital Financing Requirement	8,570

## Redemption of debt

With regard to The Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, the County Council's policy is to make a minimum revenue provision (MRP) equal to 2% of supported borrowing from 2008. This policy was implemented in 2015, therefore the actual supported borrowing MRP is based on 43 remaining years. Had the County Council been applying the new policy of a 50 year straight line calculation starting in 2008 it would have made £68 million less in MRP payments by 31 March 2016.

Starting in 2016/17 the County Council paused making MRP payments on supported borrowing until it has realigned the total amount of MRP payments with the new policy, which will be during 2021/22. This policy continues the County Council's prudent approach of repaying expenditure financed by borrowing sooner, on a straight line basis. Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Where the borrowing is in effect a bridging loan from a guaranteed future income source, such as Section106 Developers Contributions, MRP will not be applied. For deferred liabilities relating to PFI and service concessions, minimum revenue provision will match the principal repayment of the associated deferred liability over the life of the related asset.

#### 17 Leases

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

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

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

At 31 March 2018 the County Council has not taken or granted any finance leases over the de minimis level of £500,000.

## 17a The County Council as lessee:

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

Some property, items of equipment and vehicles are used by entering into operating leases. The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £3.02 million (3.728 million in 2016/17).

The future minimum lease payments due under non-cancellable leases in future years are:

2016/17		2017/18
£'000		£'000
3,381	Not later than one year	2,889
8,397	Later than one year and not later than five years	8,193
25,530	Later than five years	28,836
37,308	Total payments	39,918

## 17b The County Council as lessor:

## **Operating Leases**

The County Council leases out property under operating leases for the provision of community services, such as community centres and for economic development purposes to provide suitable affordable accommodation for local businesses. The asset is retained in the Balance Sheet. Rentals receivable are credited to the relevant service area in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease and totalled £4.5 million in 2017/18 (£3.98 million in 2016/17).

The future minimum lease payments receivable under non-cancellable leases in future years are:

2016/17		2017/18
£'000		£'000
3,793	Not later than one year	3,815
7,992	Later than one year and not later than five years	9,857
48,302	Later than five years	49,568
60,087	Total future minimum lease payments	63,240

#### 18 PFI and service concessions

PFI and similar contracts are agreements to receive services, where the PFI contractor is responsible for making available the property, plant and equipment needed to provide the services. As the County Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the

County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a deferred liability on the balance sheet for amounts due to the scheme operator to pay for the capital investment. During the life of the assets, any enhancement or replacement costs are added to the asset value and PFI liability.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- principle repayment applied to write down the Balance Sheet liability.

## 18a The South Coast Street Lighting PFI

The County Council has one PFI contract which is for street lighting. This came into effect from the financial year 2010/11. The South Coast Street Lighting PFI project was procured in partnership between Hampshire County Council, Southampton City Council and West Sussex County Council together with the service provider, Tay Valley Lighting. Each council has its own separate contract to deliver individualised lighting requirements under a standard contractual framework.

The Hampshire Street Lighting PFI involved the replacement or updating of approximately 150,000 street lights, illuminated signs and bollards with the latest energy efficient equipment during the first five years of the project. The long-term contract with Tay Valley Lighting (Hampshire) will run for 25 years, from 1 April 2010, and will also provide for the ongoing maintenance of the council's street lighting network until 2034/35.

The five year Core Investment Period (CIP), commencing early in 2010, has now been delivered in full, with some 143,200 items of illuminated street furniture replaced or upgraded with modern, energy efficient equipment. The combination of modern energy efficient equipment, combined with the Mayflower remote monitoring system has enabled HCC to make energy savings of 51% over the period of the project to date. The focus for the remaining 18 years is on maintaining and operating the new lighting to a high standard, with HCC's monitoring team verifying project delivery and operations. After March 2035 the risks relating to street lighting revert to the County Council. There are no options for contract renewal.

Following completion of the CIP, Equitix (the senior lender), in partnership with HCC, has achieved a refinancing annual gain-share of £190,450 per annum effective from April 2017. This reduction has been reflected in the 2017/18 and future expected payments under the contract as a reduced interest charge. Other changes to the annual cost are determined by inflation and amendments to the inventory.

The movement in the asset values were as follows:

2016/17		2017/18
£'000	Gross book value	£'000
	At 1 April	127,810
	Additions	-
,	Disposals	-
	Revaluations	-
127,810	Gross book value at 31 March	127,810
	Depreciation	
(10,975)	At 1 April	(15,249)
(4,274)	Depreciation for the year	(4,260)
	_Impairments	-
(15,249)	Depreciation at 31 March	(19,509)
117,236	Net book value at 1 April	108,301
112,561	Net book value at 31 March	108,301
	The movement in the deferred liability was:	
(115,298)	Balance brought forward 1 April	(111,537)
3,360	Principal repayment in the year	3,663
-	Capital expenditure incurred in the year	-
401	Deaccruals	
(111,537)	Balance at 31 March	(107,874)
	<del>-</del>	
(3,663)	Finance lease repayable in one year	(3,877)
(107,874)	deferred liability	(103,997)
(111,537)	<u> </u>	(107,874)

The street lighting contract has 18 years to run. The expected payments are shown below:

	Principal repayment	Interest	Service Charge	Total
	£'000	£'000	£'000	£'000
Next year	3,877	6,304	7,037	17,218
Years two to five	17,909	22,813	30,841	71,563
Years six to 10	28,940	21,962	44,896	95,798
Years 11 to 15	38,443	12,459	52,410	103,312
Year 16 to 18	18,706	1,655	23,185	43,546
	107,875	65,193	158,369	331,437

A PFI grant of £9 million from the Department of Transport was received by the County Council in 2017/18 with a balance of £160 million due to be received over the remainder of the contract. This grant is expected to be applied to cover the capital and financing costs built into the annual fee.

Energy for street lighting is provided through a separate contract. Estimated costs over the remainder of the contract are expected to be £93 million.

## 18b Project Integra

An existing contract for waste management meets the definition of a service concession. The contract with Hampshire Waste Services Ltd (a wholly owned subsidiary of Veolia UK) is administered by the County Council on behalf of Portsmouth and Southampton unitary authorities who are joint signatories. The contract began in January 1996 and runs until 31 December 2030.

Through a side agreement (Tripartite Agreement), Southampton and Portsmouth City Councils commit to paying a proportion of the costs of the scheme, which is broadly based on the proportion of waste contributed by each of the partner Councils.

The contract has three phases. During phases 1 and 2 the contractor planned, financed and constructed the three Energy Recovery Facilities, two Material Reprocessing Facilities and two composting sites. The contract is currently in Phase 3a covering the provision of waste disposal services in relation to the constructed facilities ending in 2030. The contract price mechanism is structured with an annual re-pricing each January linked to the retail price index in the previous October. During 2015/16 a Deed of Variation to the contract was completed. This delivered savings of £2.4 million per year from 2015 and has increased to savings of £4.9 million per year from 2018.

For sites built on County Council land the contract requires their transfer to the County Council at the end of the contract. Other sites on land contributed by Portsmouth or Southampton Councils will be subject to negotiation for continued utilisation (if required), at contract end. Contractor or third party owned sites may be acquired at contract end through assignment of leases, or options to purchase as negotiated at the time.

The County Council's apportionment of the waste disposal assets, constructed under the contract, is included in the balance sheet together with a deferred liability to pay for the assets over the life of the contract

The movement in the asset values during the year were as follows:

# **Notes to the Core Financial Statements**

2016/17 £'000	Gross book value	2017/18 £'000
	At 1 April	
,	Additions	80,177
	Disposals	-
	Revaluations	-
		- 00 477
80,177	Gross book value at 31 March	80,177
	Depreciation	
(16,607)	At 1 April	(20,727)
(4,120)	Depreciation for the year	(4,120)
-	Impairments	-
-	Revaluations	-
(20,727)	Depreciation at 31 March	(24,847)
63,570	Net book value at 1 April	59,450
59,450	Net book value at 31 March	55,330
	The movement in the deferred liability was:	
(62,414)	Balance brought forward 1 April	(59,421)
2,993	Principal repayment in the year	3,139
(59,421)	Balance at 31 March	(56,282)
(0.400)	Finance leave repossible in one was	(0.004)
* * * * * * * * * * * * * * * * * * * *	Finance lease repayable in one year	(3,291)
	deferred liability	(52,991)
(59,421)	Balance at 31 March	(56,282)

The waste management contract has 14 years to run. Based on the current contract inflation rate, the expected payments are shown below.

	Principal repayment	Interest	Service Charge	Total
	£'000	£'000	£'000	£'000
Next year	3,291	2,738	41,969	47,998
Years two to five	14,845	9,271	187,680	211,796
Years six to 10	22,998	7,147	285,407	315,552
Years 11 to 15	15,148	1,425	204,400	220,973
	56,282	20,581	719,456	796,319

## 19 Property, plant and equipment (PPE)

Assets that have a physical substance and are held for use in the provision of services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

## Recognition

Expenditure on the acquisition, creation or enhancement of PPE assets is capitalised on an accruals basis. Expenditure that maintains, but does not extend, the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to the relevant service area within the Comprehensive Income and Expenditure Statement as it is incurred.

#### Measurement

PPE assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Operational Land and Buildings current value, determined as the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Assets valued at under £10,000 are not recognised as they do not add to the future economic benefits or service potential of the Council.
- Surplus Land and Buildings at fair value in highest and best use, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- Vehicles, Plant and Equipment are measured at depreciated historical cost (as this is not materially different from the current value).
- Infrastructure Assets are measured at depreciated historical cost.
- Community Assets and Assets Under-Construction are measured at historical cost.

PPE assets included in the Balance Sheet at fair value or current value (i.e. land and buildings) are re-valued where there have been material changes in the value, but as a minimum every five years.

Increases in valuations are matched by credits to the Asset Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the relevant service area within the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to the service area. The Asset Revaluation Reserve only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date form part of the Capital Adjustment Account.

#### **Impairment**

Decreases in value (due to either physical impairment or market prices) are either charged to the Asset Revaluation Reserve (to the extent that it has any balance relating to the specific asset) or to the relevant service area within the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised. However, revaluation losses and subsequent reversals are not permitted by statutory arrangements to impact on the General Fund Balance and therefore any gains or losses are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

## **Depreciation**

Depreciation is provided for on all PPE assets with a determinable and finite life by allocating the value of the asset in the Balance Sheet over their useful lives. An exception is made for assets without finite lives (e.g. land and community assets), assets that are not yet available for use (e.g. assets under construction) and assets held for sale.

The accounting standard IAS16 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, where parts of the item are individually not significant and there are varying expectations for these parts, approximation techniques may be necessary to depreciate them in a manner that faithfully represents the consumption pattern and/or useful life of its parts. For building assets, the County Council uses a weighted average of all components rather than depreciating components separately. The difference in the depreciation calculated is not material.

Depreciation commences in the year after the year of acquisition and a full year's depreciation is charged in the year of disposal, except for vehicles disposed of in the first six months of a financial year when no depreciation is charged in the final period. Depreciation is calculated on the following basis:

- Dwellings and other buildings straight-line allocation over the useful life of the property as estimated by the valuer \*
- Furniture and equipment between five and 10 years
- Vehicles between five and 10 years
- Infrastructure 20 years
- Street lighting 30 years

<sup>\*</sup> The useful life of a building is the weighted average of all its components. Where material, replaced components are derecognised by disposing of their gross book value and accumulated depreciation.

Depreciation is charged to the relevant revenue service area within the Comprehensive Income and Expenditure Statement. However, depreciation charges are not permitted by statutory arrangements to have an impact on the General Fund Balance and therefore all depreciation charges are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

Where assets have been re-valued, the revaluation gains held in the Asset Revaluation Reserve are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged, based on their historic cost, being transferred each year from the Asset Revaluation Reserve to the Capital Adjustment Account.

## Disposals and assets held for sale

When a material PPE asset is to be disposed of, and meets all of the criteria of an asset held for sale, it is reclassified as Assets Held for Sale. If the carrying amount at the time of reclassification is higher than the fair value less costs to sell the asset, then the asset held for sale will be impaired. This impairment is charged to other costs in the Comprehensive Income and Expenditure Statement. Assets that are being abandoned, scrapped or have fully depreciated are written out without being reclassified.

When the asset is disposed of, decommissioned, the carrying value of the asset is written out to the Other Operating Income and Expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement. Any revaluation gains accumulated for the asset in the Asset Revaluation Reserve are written out to the Capital Adjustment Account by way of a transfer between the accounts.

Amounts received in excess of £10,000 are categorised as capital receipts and are credited to the other operating expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. They are then appropriated to the Capital Receipts Reserve from the General Fund Balance within the Movement in Reserves Statement and then can only be used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the capital financing requirement).

#### **School Assets**

The County Council has foundation, voluntary aided schools (VA schools) and voluntary controlled schools (VC schools). The County Council owns some of the assets in relation to these schools but some of the assets are owned and controlled by another party (e.g. the diocese). The County Council recognises the value of the assets it owns in relation to VA schools in the Balance Sheet. All assets of Foundation and VC schools are recognised by the County Council, even those it does not own, as the County Council controls the service and economic potential of these assets. The property, plant and equipment assets

of foundation trust schools are controlled by the Trust and are not included in the County Council's Balance Sheet.

Details on the different types of schools in Hampshire can be found on the government website: <a href="https://get-information-schools.service.gov.uk/">https://get-information-schools.service.gov.uk/</a>

## Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture. The principal heritage assets owned by the County Council are its museum collections, archives collection and a small number of historic buildings and archaeological sites. Since 1 November 2014, the County Council's museum collection is managed by the Hampshire Cultural Trust

It is the County Council's opinion that due to the size and variety of the museum and archives collection and the fact that many of the items are unique and irreplaceable, it is not possible to obtain a fair value at a cost commensurate to the benefit derived by the users of the accounts. The historical cost of buildings and archaeological sites, where known, is not material. Therefore, asset values are not included in the balance sheet, but details of heritage assets are given in the notes to the accounts.

The County Council also owns a number of operational heritage assets that, in addition for being held for their contribution to knowledge and culture, are also used for other activities or to provide other services. Operational heritage assets are accounted for as operational assets and valued in the same way as other assets of that type.

Detailed information about the County Council's Heritage assets can be found on the Hampshire Cultural Trust and Hampshire Archives websites:

https://hampshireculturaltrust.org.uk/

http://www3.hants.gov.uk/archives.htm

#### Intangible assets

Intangible assets are assets which bring benefits for more than one year, are identifiable and controlled by the County Council, but lack physical substance. Typical examples include software licences, and websites developed to deliver services rather than information about services. The County Council does not have any material intangible assets.

# **Property, Plant and Equipment (PPE)**

The movements in property plant and equipment during 2017/18 were as follows:

• •	•			•				
Cost or valuation	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets	Total Property, Plant and Equipment	PFI Assets included in Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2017	3,492,979	136,054	1,158,234	19,843	70,848	18,142	4,896,100	207,987
Additions in year	26,396	17,551	43,137	2,957	77,623	48	167,712	0
Donations	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve Revaluation increases/(decreases) recognised in the Surplus/Deficit on	46,625 (23,495)	0	0	0	0	5,435	52,060 (23,520)	0
the Provision of Services	( , ,					` /	, , ,	
Derecognition - Disposals	(10,397)	(48,159)	0	(237)	0	(375)	(59,168)	0
Derecognition - Other	(25,169)	(174)	0	0	0	0	(25,343)	0
Assets reclassified to held for sale	(960)	0	0	0	0	0	(960)	0
Other movements in cost or valuation	33,358	0	20,628		(56,391)	1,713	(692)	0
At 31 March 2018	3,539,337	105,272	1,221,999	22,563	92,080	24,938	5,006,189	207,987
Accumulated depreciation and Impairment								
At 31 March 2017	(537,906)	(89,454)	(353,025)	(274)	0	(3,150)	(983,809)	(35,976)
Depreciation Charge	(85,024)	(9,726)	(41,484)	0	0	(288)	(136,522)	(8,380)
Depreciation written out on revaluation	104,167	0	0	0	0	3	104,170	0
Depreciation w ritten out to the Surplus/Deficit on the Provision of Services	4,665	0	0	0	0	0	4,665	0
Impairment losses recognised in the Revaluation Reserve	(11,711)	0	0	0	0	0	(11,711)	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(17,017)	0	0	(2)	0	(1)	(17,020)	0
Derecognition - Disposals	5,429	48,049	0	2	0	17	53,497	0
Derecognition - Other	3,755	114	0	0	0	0	3,869	0
Assets reclassified to held for sale	0	0	0	0	0	0	0	0
Other movements in depreciation and								
impairment At 31 March 2018	275	0	(12)	0	0	(160)	103	0
, 01 mai on 2010	(533,367)	(51,017)	(394,521)	(274)	0	(3,579)	(982,758)	(44,356)
Net Book Value								
At 31 March 2018	3,005,970	54,255	827,478	22,289	92,080	21,359	4,023,431	163,631
At 31 March 2017	2,955,073	46,600	805,209	19,569	70,848	14,992	3,912,291	172,011

The comparative movements in	PPE during 2016/17	were as follows:
The comparative movements in	i i L dulling 2010/17	were as follows.

Cost or valuation	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets	Total Property, Plant and Equipment	PFI Assets included in Property Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2016	3,437,545	152,956	1,064,568	18,147	42,597	10,528	4,726,341	208,388
Additions in year	29,478	6,683	46,121	757	65,205	25	148,269	
Donations	0	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	48,819	0	0	0	0	1,082	49,901	0
Revaluation increases/(decreases)	10,010	Ŭ	Ü	Ü	Ü	1,002	10,001	
recognised in the Surplus/Deficit on the Provision of Services	(16,344)	0	0	0	0	(939)	(17,283)	0
Derecognition - Disposals	(6,111)	(195)	(401)	0	0	(1,299)	(8,006)	
Derecognition - Other	(224)	0	0	0	0	0	(224)	(401)
Assets reclassified to held for sale	(187)	0	0		0	0	(187)	0
Other movements in cost or valuation	3	(23,390)	47,946	939	(36,954)	8,745	(2,711)	0
At 31 March 2017	3,492,979	136,054	1,158,234	19,843	70,848	18,142	4,896,100	207,987
Accumulated depreciation and Impairment								
At 31 March 2016	(531,356)	(101,593)	(293,153)	(208)	0	(618)	(926,928)	(27,582)
Depreciation Charge	(81,232)	(10,296)	(37,884)	0	0	(229)	(129,641)	(8,394)
Depreciation written out on revaluation	80,055	0	0	0	0	0	80,055	0
Depreciation w ritten out to the Surplus/Deficit on the Provision of Services	4,765	0	0	0	0	0	4,765	0
Impairment losses recognised in the Revaluation Reserve	(6,752)	0	0	0	0	(145)	(6,897)	0
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	(11,178)	0	0	0	0	(523)	(11,701)	0
Derecognition - Disposals	6,028	171	0	0	0	157	6,356	0
Derecognition - Other	55						55	0
Assets reclassified to held for sale	4	0	0		0	0	4	0
Other movements in depreciation and								
impairment	1,705	22,264	(21,988)	(66)	0	(1,792)	123	0
At 31 March 2017	(537,906)	(89,454)	(353,025)	(274)	0	(3,150)	(983,809)	(35,976)
Net Book Value								
At 31 March 2017	2,955,073	46,600	805,209	19,569	70,848	14,992	3,912,291	172,011

# 19a Capital commitments

Commitments for major contracts entered into up to 31 March 2018 are estimated at £72.7 million (£51.8 million in 2016/17). This comprises £5 million (£13.7 million in 2016/17) for highways and £58.8 million (£23.8 million in 2016/17) for buildings and £8.9 million (£14.3 million in 2016/17) for Superfast Broadband contracts.

#### 19b Valuation of assets

The freehold and leasehold properties of the County Council's property portfolio have been valued under a rolling programme by the County Council's property services staff. Valuations were carried out in accordance with the methodologies and bases of estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

	Other land and buildings	Vehicles, plant and equipment	Infra- structure	Comm- unity assets	Surplus assets	Total Property, Plant and Equipment
Date of Valuation	£'000	£'000	£'000	£'000	£'000	£'000
Valued at historic cost		54,255	827,478	22,289		904,022
Pre 2013/14	1,116					1,116
2013/14	469,638					469,638
2014/15	437,181					437,181
2015/16	680,474				7,544	688,018
2016/17	687,187				6,750	693,937
2017/18	730,374				7,065	737,439
Total	3,005,970	54,255	827,478	22,289	21,359	3,931,351

## 20 Investment properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between separate and knowledgeable parties. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The same treatment is applied to gains and losses on disposal.

Material rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The following table summarises the movement in the fair value of investment properties over the year:

2016/17 £'000		2017/18 £'000
04.007		00.000
31,667	Balance at start of the year Additions:	36,262
0	- purchases	0
0	- construction	0
6	- subsequent expenditure	0
(714)	Disposals	(3,412)
4,041	Net gains/(losses) from fair value adjustments Transfers:	48,752
1,262	- (to)/from Property, Plant and Equipment	588
36,262	Balance at end of the year	82,190

The net gain includes existing land holdings that are now being held for investment purposes and have been valued at £39.9 million. There are no restrictions on the County Council's ability to realise the value inherent in its investment property or on the County Council's right to the remittance of income and the proceeds of disposal. The County Council has no contractual obligations to purchase, construct or develop investment property or to carry out repairs, maintenance or enhancement.

# 21 Valuation of non financial assets carried at fair value

# **Fair Value Hierarchy**

Information about the fair value hierarchy levels for investment and surplus properties are as follows:

Values at 31 March 2018	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	significant unobservable inputs Level 3 £'000	Total £'000
Investment Assets Surplus Assets	0	41,481 18,871	40,709 2,488	82,190 21,359
Total	0	60,352	43,197	103,549

#### Valuation Techniques used to Determine Level 2 and 3 Fair Values

# Significant Observable Inputs - Level 2

The fair value for the properties within level 2 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

#### Significant Unobservable Inputs - Level 3

The fair value for the properties within level 3 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets, but with a level of valuer judgement as the recent sales prices and other relevant information are not as significant as with Level 2. This results in more significant unobservable inputs being used in order to determine the fair value. The assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

#### 22 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non exchange transactions, such as those relating to taxes and government grants do not give rise to financial instruments.

#### Financial assets

Financial assets are classified into two types:

- loans and receivables assets that have fixed or determinable payments but are not quoted in an active market;
- available-for-sale assets assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the County Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Available for sale financial assets are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument. These assets are measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the County Council. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices the market price;
- other instruments with fixed and determinable payments net present value.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

#### **Financial liabilities**

Financial liabilities are recognised on the Balance Sheet when the County Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and subsequently carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the County Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the

amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The County Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

# Foreign currency translation

Where the County Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March.

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

-	Long	term	Cur	Current	
	31 March	31 March	31 March	31 March	
	2017	2018	2017	2018	see
Financial assets:	£'000	£'000	£'000	£'000	note
Loans & receivables - Investments	122,500	86,000	141,032	177,629	
Available for sale - investments	161,807	208,280	21,413	66,301	
Total investments	284,307	294,280	162,445	243,930	
Loans & receivables - cash and cash					
equivalents	-	-	(6,494)	(1,139)	22a
Available for sale cash & cash					
equivalents	-	-	61,721	25,727	22a
Total cash & cash equivalents	-	-	55,227	24,588	
Loans & receivables - Debtors	11,584	23,631	82,654	85,602	
Total debtors	11,584	23,631	82,654	85,602	
<b>Total Financial Instrument Assets</b>	295,891	317,911	300,326	354,120	
Financial liabilities at amortised cost:					
Borrowing	(319,704)	(279,960)	(40,665)	(37,625)	22d
Developers' contributions	(69,749)	(90,076)	-	-	22f
Creditors and receipts in advance	-	-	(146,882)	(153,904)	22g
PFI & finance lease liabilities	(164,156)	(156,988)	(6,802)	(7,168)	18
Financial liabilities at amortised cost	(553,609)		(194,349)	(198,697)	
The fair value of long term loans and receivable	s and borrowi	ngs are includ	ded in disclosi	ure note 22e.	

## 22a Cash and cash equivalents

Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

31 March 2017 £'000		31 March 2018 £'000
2,301	Cash in hand	1,884
13,740	Call accounts (instant access bank accounts)	6,721
61,721	Available for sale financial assets (instant access money market funds)	25,727
(22,535)	Bank overdraft	(9,744)
55,227		24,588

# 22b Long-term debtors

31 March		31 March
2017		2018
£'000		£'000
	Financial instrument debtors	
714	Car loans to staff	613
10,870	Other	23,018
11,584		23,631
	Non-financial instrument debtors	
29,576	Transferred debt	28,252
41,160		51,883

Transferred debt represents amounts of capital advances due to be repaid after statutory transfers of former services to independent bodies. These are not financial instruments and are shown at the book value of the amount outstanding. £27.8 million remains to be repaid by the cities of Portsmouth and Southampton, £0.4 million by the Office of the Police and Crime Commissioner for Hampshire.

By value, the majority of these loans are for a period of less than five years. Their amortised cost in the Balance Sheet is a reasonable assessment of fair value. All loans are expected to be repaid in full, so a reduction for impairment is not considered necessary.

# 22c Short-term debtors

Debtors are shown net of the provision for doubtful debts detailed below.

31 March 2017		31 March 2018
£'000		£'000
	Financial instrument debtors	
3,015	Government departments	4,028
17,013	Other local authorities	18,985
6,049	NHS bodies	6,672
34	Public corporations and trading funds	71
56,543	Sundry debtors	55,846
82,654	Total Financial Instrument debtors	85,602
	Non-financial instrument debtors	
11,878	Government departments	8,367
11,589	Other local authorities	11,858
19,712	Payments in advance	16,675
125,833	Total debtors and prepayments	122,502

# 22d Borrowing

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Long term			Short	t term
31 March	31 March		31 March	31 March
2017	2018		2017	2018
£'000	£'000		£'000	£'000
		Loans at amortised cost:		
(243,437)	(235,611)	-Public Works Loan Board (PWLB)	(15,696)	(9,933)
(76,267)	(44,349)	-Market loans	(1,051)	(595)
-	-	-Other short-term borrowing	(23,918)	(27,097)
(319,704)	(279,960)		(40,665)	(37,625)

#### 22e Fair values

# **Fair Value Measurement**

The County Council measures some of its assets and liabilities at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The County Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

When measuring the fair value of a non-financial asset, the County Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Financial assets classified as available for sale and all derivative financial liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds and shared in money market funds and other pooled funds, the fair value is taken from market price. The fair values of other instruments have been estimated by calculating the net present value of the remaining contractual cash flows at the Balance Sheet date, using the following methods and assumptions:

 Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at the Balance Sheet date, using the following assumptions:

- Loans borrowed by Hampshire County Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of 'Lender's Option Borrower's Option' (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary

model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair values of other long term loans and investments have been discounted at the market rates for similar instruments with similar remaining term to maturity on 31st March.
- PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables is assumed to approximate to the carrying amount and therefore is not shown below. This is because the amounts are due within one year, without interest.

Fair values are shown in the tables below, split by their level in the fair value hierarchy:

Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities e.g. bond prices

Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

2010	6/17			201	7/18
Balance	Fair		Fair	Balance	Fair
Sheet	Value		Value	Sheet	Value
£'000	£'000	Financial Assets held at fair value:	Level	£'000	£'000
106,503	106,503	Available for sale - bond investments	2	157,832	157,832
76,717	76,717	Available for sale - other investments	1	116,749	116,749
61,721	61,721	Available for sale - money market funds	1	25,727	25,727
244,941	244,941	Total		300,308	300,308
		Financial Assets held at amortised cost	:		
122,500	132,348	Long-term investments - principal	2	86,000	93,714
1,721		Long-term investments - interest		952	
124,221	132,348	Total		86,952	93,714
227,055		Assets for which fair value is not disclosed	(note i)	284,771	
596,217	377,289	Total financial instrument assets		672,031	394,022
		Recorded on balance sheet as:			
284,307		Long-term investments		294,280	
11,584		Long-term debtors		23,631	
162,445		Short-term investments		243,930	
82,654		Short-term debtors		85,602	
55,227		Cash and cash equivalents		24,588	
596,217		Total financial instrument assets		672,031	

note i - The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made (the same was true at 31 March 2016).

201	6/17			201	7/18
Balance	Fair		Fair	Balance	Fair
sheet	Value		Value	sheet	Value
£'000	£'000	Financial Liabilities	Level	£'000	£'000
(256,976)	(335,464)	PWLB loans - principal	2	(243,437)	(307,531)
(2,157)		PWLB loans - interest		(2,108)	
(76,281)	(112,733)	Market loans - principal	2	(44,318)	(59,173)
(1,037)		Market loans - interest		(563)	
(170,958)	(223,838)	PFI arrangements (deferred liability)	3	(164,156)	(203,840)
(507,409)	(672,035)	Total		(454,582)	(570,544)
		Liabilities for which fair value is not			
(240,549)	_	disclosed (note i)		(271,139)	
(747,958)	-	Total financial instrument liabilities		(725,721)	
		Recorded on balance sheet as:			
(146,882)		Short-term creditors		(153,904)	
(40,665)		Short-term borrowing		(37,625)	
(6,802)		Deferred liability repayable within one year		(7,168)	
(319,704)		Long-term borrowing		(279,960)	
(164,156)		Deferred liabilities		(156,988)	
(69,749)	_	Developers' contributions		(90,076)	
(747,958)		Total financial instrument liabilities		(725,721)	

note i - The fair value of short-term financial liabilities including trade payables and developers contributions is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the County Council's portfolio includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

# 22f Developers' contributions

Developers' contributions arise mainly as a result of agreements under Section 106 of the Town and Country Planning Act 1990 and also Section 278 of the Highways Act 1980 if a development derives special benefit from highway works, developers can be required to contribute towards the costs. Before being applied, deposits are credited with interest on the basis of market rates. Therefore the carrying amount is a reasonable assessment of the fair value of the financial liability.

	2016/17				2017/18	
Highways	Other	Total		Highways	Other	Total
£'000	£'000	£'000	_	£'000	£'000	£'000
(51,206)	(11,422)	(62,628)	Balance at 1 April	(51,653)	(18,096)	(69,749)
(11,664)	(14,005)	(25,669)	Income	(21,991)	(35,935)	(57,926)
11,217	7,331	18,548	Contributions applied	7,165	30,434	37,599
(51,653)	(18,096)	(69,749)	Balance at 31 March	(66,479)	(23,597)	(90,076)

# 22g Short-term creditors

Short-term creditors includes deposits, creditors and receipts in advance as detailed below:

31 March 2017		31 March 2018
£'000		£'000
	Financial instrument creditors	
(339)	Deposits	(473)
(1,239)	Government departments	(1,940)
(5,765)	NHS Bodies	(7,083)
(10)	Public corporations and trading funds	(27)
(23,320)	Other local authorities	(18,158)
(116,209)	Sundry creditors	(126,223)
(146,882)	Total Financial Instrument creditors	(153,904)
	Non-financial instrument creditors	
(16,157)	HM Revenue and Customs and Government departments	(14,076)
(9,027)	Other local authorities	(12,637)
(172,066)	Total short term creditors	(180,617)

# 22h Nature and extent of risks arising from financial instruments

The County Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in 2017).

As part of the adoption of the Treasury Management Code, the County Council approves a Treasury Management Strategy before the commencement of each financial year.

Revenue budget report appendix 8 Treasury Management Strategy

The Strategy sets out parameters for the management of risks associated with Financial instruments. The County Council also produces Treasury management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Government's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The County Council's Treasury Strategy, together with its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

**Credit risk**: The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the County Council.

**Liquidity risk**: Liquidity risk is the possibility that the County Council might not have the cash available to make contracted payments on time.

**Market risk**: The possibility financial loss will materialise because of changes in market variables such as interest rates or equity prices.

#### Credit risk

The County Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy

The table below summarises the credit risk exposures of the County Council's investment portfolio at 31 March 2018 by the type of counterparty:

	Long	term	Sh	ort term
Credit Rating	31 March	31 March	31 March	31 March
	2017	2018	2017	2018
	£'000	£'000	£'000	£'000
AAA	72,060	78,965	20,013	66,200
AA+	-	-	-	-
AA	-	-	-	-
AA-	13,029	12,666	13,740	6,721
A+	-	-	-	-
A	-	-	22,023	5,009
A-	-	-	1,400	-
AAA Money market funds	-	-	61,721	25,727
Unrated local authorities	124,222	86,952	117,289	171,669
Unrated pooled funds	76,717	116,750	-	-
Total	286,028	295,333	236,186	275,326

#### Invoiced debtors risk

The invoiced debtors have been reviewed by age to determine an appropriate provision for debts that are likely to be uncollectable. This excludes debts of £9.9 million considered to be low risk as they were either paid in early 2017/18, secured on property or have agreed repayment plans.

A provision of £7.6 million (£9.8 million in 2016/17) has been estimated.

#### **Notes to the Core Financial Statements**

Outstanding debt raised in	Outstanding balance due at 31 March 2018 £'000	Individually assessed impairment £'000	Collectively assessed impairment £'000	Total provision £'000
2017/18	20,366	245	-8	237
2016/17	4,207	630	1,632	2,262
2015/16	2,032	507	1,320	1,827
2014/15 and earlier	3,572	521	2,762	3,283
	30,177	1,903	5,706	7,609

# **Liquidity risk**

The County Council has ready access to borrowing from the Public Works Loan Board, other local authorities, and from banks and building societies. There is no perceived risk that the County Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the County Council's borrowing that matures in any one financial year.

The maturity analysis of the principal sums borrowed at 31 March 2018 was as follows:

Outstanding 31 March		Outstanding 31 March
2017		2018
£'000		£'000
(13,553)	Not over one year	(7,857)
(7,839)	Between one and two years	(9,143)
(30,865)	Between two and five years	(29,817)
(45,000)	Between five and 10 years	(49,000)
(59,000)	Between 10 and 15 years	(67,000)
(108,000)	Between 15 and 20 years	(93,000)
(35,000)	Between 20 and 25 years	(26,000)
(34,000)	More than 25 years	(6,000)
(333,257)	Total	(287,817)

The Council has £28 million of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the County Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates it is unlikely that the lenders will exercise their options and therefore these loans are included in the analysis above at their maturity date.

#### Market risk

#### Interest rate risk

The County Council is exposed to risks arising from interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the County Council. For instance a rise in interest rates would have the following effects:

- borrowings at variable rates the interest rate expense will rise
- borrowings at fixed rates the fair value of the liabilities will fall
- investments at variable rates the interest income will rise
- investments as fixed rates the fair value of the assets will fall

Investments classed as loans and receivables and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as 'available for sale' will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2018, £417 million of principal borrowed was at fixed rates and £44.3 million at variable rates. The value of the County Councils investments (excluding accrued interest) held at variable rates (including investments with less than one year to maturity) was £472.369 million at 31 March 2018 and fixed rates was £89.513 million.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

Interest rate risk	£'000
Increase in interest payable on variable rate borrowing	(3,127)
Increase in interest receivable on variable rate investments	3,502_
Impact on (Surplus) or Deficit on the Provision of Services	375
Decrease in fair value of available for sale financial assets	(1,806)
Impact on Comprehensive Income and Expenditure	(1,431)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

## Price risk

The market prices of the County Council's fixed rate bond investments are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The County Council's investment in pooled property funds are subject to the risk of falling commercial property prices. This risk is limited by the County Council's investment strategy. A fall in commercial property prices would result in a charge to Other Comprehensive Income and Expenditure – this would have no impact on the General Fund until the investment was sold.

# Foreign exchange risk

The County Council has no financial assets or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

#### 23 Provisions

Provisions are liabilities of uncertain timing or amount.

Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the County Council has a present obligation (legal or constructive), and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that payments will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Comprehensive Income and Expenditure Statement.

# Change in provisions

		31 March	Use of	Increase o	r decrease	in 2017/18	31 March
	note	2017	<b>Provision</b>	Central	Service	<b>Taxation</b>	2018
	2		In Year	<b>Provision</b>	<b>Provision</b>	<b>Provision</b>	
		£'000	£'000	£'000	£'000	£'000	£'000
Insurance claims	а	(19,714)	4,896	(1,250)	(6,826)	0	(22,894)
Business rates appeals	b	(4,478)	1,213		0	(1,033)	(4,298)
Other	С	(1,353)	898	0	(520)	0	(975)
Total Provisions		(25,545)	7,007	(1,250)	(7,346)	(1,033)	(28,167)

a. The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2018. The risks covered from the provision are as follows:

#### Liabilities

Employer's liability, public liability, product liability and pollution liability – the maximum liability for any one claim being £5 million. The maximum amount for which the provision is liable (the commercial insurance aggregate) is £12.5 million in any one year.

#### **Property**

Reinstatement of buildings for loss or damage as a result of fire, lightning, explosion and (for schools only) major storm and flood. This applies to buildings owned by the Council and those leased to it where the lease allows.

Contents owned by the Council for loss or damage as a result of fire, lightning, explosion and theft.

#### Additional cover

Personal accident scheme Fidelity guarantee

Schools - balance of perils Schools - community use

- **b.** This is the County Council's share of the provision made by billing authorities for refunding ratepayers who are successful in appealing against the rateable value of their properties on the rating list. This includes amounts relating to non-domestic rates charged to businesses in 2012/13 and earlier financial years.
- **c**. This provision covers other liabilities, including that relating to the need to purchase allowances to offset the Councils carbon dioxide emissions through its use of energy in accordance with the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date.

# 24 Post employment benefits

As part of the terms and conditions of employment of its staff, the County Council makes contributions towards the cost of post-employment benefits. These will be paid only when employees retire but in accordance with IAS19 the County Council must account for the commitments at the time that employees earn their future entitlement.

The Council participates in three pension schemes:

- a) Pension schemes accounted for as defined contribution schemes:
  - The Teachers Pension Scheme
  - The NHS Pension Scheme
- b) The Local Government Pension Scheme (LGPS)

#### 24a Pensions Schemes Accounted for as Defined Contribution Schemes

#### **Teachers' Pension Scheme**

This is a defined benefit scheme administered by the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the County Council's only obligation is to pay contributions towards these costs based on a percentage of member's pensionable salaries. The scheme is unfunded so the pensions of past employees are paid from current revenues. The DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. As such the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes, and therefore this scheme is accounted for as if it is a defined contribution scheme and no liability for future payment of benefits is recognised in the Balance Sheet.

The Schools line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

In 2017/18 total employer's contributions were £46.3 million representing 16.48% of pensionable pay (£46.8 million representing 16.48% of pensionable pay in 2016/17).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 24c.

#### **NHS Pension Scheme**

On 1 April 2013, Public Health staff transferred from the NHS to the County Council. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the County Council's only obligation is to pay contributions towards these costs based on a percentage of member's pensionable salaries.

The scheme is an unfunded defined benefit scheme administered by EA Finance NHS Pensions. As such the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes and therefore this scheme is accounted for as if it is a defined contribution scheme and no liability for future payment of benefits is recognised in the Balance Sheet.

The Adults' Health and Care line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

In 2017/18 total employer's contributions were £0.1 million representing 14.38% of pensionable pay (£0.1 million representing 14.3% of pensionable pay in 2016/17).

#### 24b Local Government Pension Scheme

#### **Participation in Pension Schemes**

The County Council participates in and administers the Hampshire LGPS. This is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits earned after 31 March 2014 are based on a Career Average Revalued Earnings. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'. The funded nature of the LGPS requires that Hampshire County Council and employees pay contributions into the Fund, calculated at a level intended to balance the Fund's liabilities with its investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement.

The LGPS is accounted for as a defined benefits scheme where:

The liabilities of the scheme attributable to the County Council are included in the

Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees).

- Liabilities are discounted to their value at current prices using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.
- The assets of the pension fund attributable to the County Council are included in the Balance Sheet at their fair value: for quoted securities this means the current bid price; for unquoted securities this is based on a professional estimate; for unitised securities this means the current bid price; for property this means an estimate of the market value.

In 2017/18 Pension Fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation at 31 March 2016. As part of the 2016 valuation a new Rates and Adjustment Certificate was produced for the three year period from 1 April 2017.

Statutory provisions limit the County Council to raising council tax to cover the actual amounts payable by the County Council to the pension fund in the year. In the Movement in Reserves Statement an appropriation is made between the General Fund and the Pension Fund Reserve to remove the notional debits and credits for retirement benefits included in the Comprehensive Income and Expenditure Statement and replace them with debits for the actual amounts paid to the pension fund and any amounts due to the fund but unpaid at the year-end.

#### **Discretionary benefits**

The County Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. These are not funded by the assets of the Pension Fund but by the County Council when they are paid. Any liabilities estimated to arise as a result of a discretionary award are accrued for in the year of the decision to make the award and accounted for using the same policies as are applied to the LGPS.

# 24c Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The change in the net pension liability is analysed into the following components:

• Current service cost: this is the increase in liabilities resulting from employee service in the current period. This is shown as a cost in the Comprehensive Income

- and Expenditure Statement for the service where the employee worked.
- Past service cost: this is the increase in liabilities arising from current year
  decisions whose effect relates to the number of years of service earned in earlier
  years. This is shown in other costs in the Comprehensive Income and Expenditure
  Statement.
- Gains/losses on settlements and curtailments: this is the result of members of
  the scheme leaving, joining or stopping their contributions to the scheme. These
  actions relieve the County Council of liabilities or reduce the expected future service
  or accrual of benefits of employees. This is shown in other costs in the
  Comprehensive Income and Expenditure Statement
- Net interest on the net defined benefit liability: this is the change during the
  period in the net defined benefit liability that arises from the passage of time. This is
  charged to the Financing and Investment Income and Expenditure line of the
  Comprehensive Income and Expenditure Statement.
- Re-measurement comprising:
  - **1. The return on assets -** excluding amounts included in net interest on the net defined benefit liability charged as Other Comprehensive Income and Expenditure.
  - 2. Actuarial gains and losses: these are changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are shown as other income and expenditure within the Comprehensive Income and Expenditure Statement.
- Contributions paid to the Hampshire County Council pension fund: these are amounts paid as employer contributions to the pension fund and are not included within the cost of services.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2016/17 £'000		2017/18 £'000
	Included in the Comprehensive Income and Expenditure Statement:	
	Cost of Services	
82,050	Current service cost of funded LGPS pensions	113,860
1,280	Past service cost of funded LGPS pensions	1,460
	Charge to non-distributed costs for early	
	retirement in the year	
	Settlement costs	0
0	Net increase in liabilities from acquisitions	0
	Financing and Investment Income and Expenditure	
	Interest on net defined liability	30,260
117,370	Total post employment benefits charges to the surplus/deficit on the	145,580
	provision of services	
(000 470)	Remeasurements in Other Comprehensive Income:	(0.000)
(339,470)	Return on plan assets (excluding that recognised in net interest)	(9,360)
000 000	Actuarial (gains)/losses arising:-	00.040
,	Actuarial (gains) / losses due to change in financial assumptions	62,640
, , ,	Actuarial (gains) / losses due to change in demographic assumptions	0
	Actuarial (gains) / losses due to liability experience	20,250
120,430	Total amount recognised in Other Comprehensive Income and Expenditure	73,530
2/5 800		219,110
243,000	Total post employment benefits charges to the Comprehensive Income and Expenditure Statement	219,110
	and Expenditure Statement	
	Movement in reserves statement	
	Reversal of net changes made to the surplus/deficit for the provision of	
(117,370)	services for post employment benefits in accordance with IAS19	(145,580)
	Actual amount charged against the General Fund Balance for pensions in	
	the year	
73,830	Employer's contributions payable to the fund	81,750
	Added years and early retirement cash flows in the year:	
1,940	- LGPS	1,880
2,730	- Teachers	2,690
78,500	Charge on General Fund	86,320

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2018 is a loss of £98.3 million.

# 24d Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Period ended 31 March 2018	LGPS funded £'000	LGPS Unfunded £'000	Teachers' Unfunded £'000	Total £'000
Opening present value of liabilities	(3,470,600)	(26,070)	(36,500)	(3,533,170)
Current service cost	(113,860)	0	0	(113,860)
Interest expense on defined benefit obligation	(89,390)	(650)	(910)	(90,950)
Contributions by participants	(23,940)	0	0	(23,940)
Actuarial gains/(losses) on liabilities:				
- financial asssumptions	(62,110)	(230)	(300)	(62,640)
<ul> <li>demographic assumptions</li> </ul>	0	0	0	0
<ul> <li>liability experience</li> </ul>	(19,670)	(240)	(340)	(20,250)
Net benefits paid out (note i)	90,180	1,880	2,690	94,750
Past service cost	(1,460)	0	0	(1,460)
Net increase in liabilities from acquisitions	0	0	0	0
Closing present value of liabilities	(3,690,850)	(25,310)	(35,360)	(3,751,520)

Period ended 31 March 2017	LGPS funded £'000	LGPS Unfunded £'000	Teachers' Unfunded £'000	Total £'000
Opening present value of liabilities	(2,889,910)	(25,660)	(36,830)	(2,952,400)
Current service cost	(82,050)	0	0	(82,050)
Interest expense on defined benefit obligation	(97,180)	(840)	(1,210)	(99,230)
Contributions by participants Actuarial gains/(losses) on liabilities:	(23,480)	0	0	(23,480)
- financial asssumptions	(604,810)	(1,880)	(2,670)	(609,360)
- demographic assumptions	25,080	750	1,080	26,910
- liability experience	114,530	(380)	400	114,550
Net benefits paid out (note i)	88,500	1,940	2,730	93,170
Past service cost	(1,280)	0	0	(1,280)
Net increase in liabilities from acquisitions	0	0	0	0
Closing present value of liabilities	(3,470,600)	(26,070)	(36,500)	(3,533,170)

note i - Consists of net cash flow out of the Fund in respect of the employer, excluding contributions and any death-in-service lump sums paid, and including an approximate allowance for the expected cost of death-in-service lump sums.

#### 24e Reconciliation of the Movements in the Fair Value of Scheme Assets

31 March		31 March
2017		2018
£'000		£'000
1,912,400	Opening fair value of assets	2,325,870
65,190	Interest income on assets	60,690
339,470	Remeasurement gains/(losses) on assets	9,360
78,500	Contributions by employer	86,320
23,480	Contributions by participants	23,940
(93,170)	Net benefits paid out (note i)	(94,750)
2,325,870	Closing fair value of assets	2,411,430

note i - Consists of net cash flow out of the Fund in respect of the employer, excluding contributions and any death-in-service lump sums paid, and including an approximate allowance for the expected cost of death-in-service lump sums.

# 24f Pensions Assets and Liabilities Recognised in the Balance Sheet

The share of the assets and liabilities of the Hampshire LGPS attributable to the County Council has been assessed by the Pension Fund's actuary, along with the unfunded benefits of LGPS members and teachers. The actuary estimated that the following overall assets and liabilities for pension costs should be included in the balance sheet.

31 March	31 March
2017	2018
£'000	£'000
Present value of the defined benefit obligation:	
(3,470,600) LGPS funded	(3,690,850)
Unfunded Liabilities:	
(26,070) LGPS	(25,310)
(36,500) Teachers	(35,360)
(3,533,170)	(3,751,520)
2,325,870 Fair value of assets in the scheme	
(1,207,300) Net liability arising from defined benefit obligation	

The liabilities show the underlying long term commitments that the authority has to pay post employment (retirement) benefits. The net deficit reduces the net worth of the authority as recorded on the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the Fund's actuary.
- finance is only required to be raised to cover discretionary (unfunded) benefits when the pensions are actually paid.

The proportion of assets by category is shown below:

31 March 2017	31 March 2018	31 March 2018	31 March 2018
<u></u>	Quoted %	Unquoted %	Total %
60.3 Equities	58.5	4.1	62.6
25.2 Government bonds	23.5	0.2	23.7
6.5 Property	0.7	6.3	7.0
1.4 Corporate bonds	1.0	-	1.0
3.4 Cash	2.6	-	2.6
3.2 Other (hedge funds, currency holdings, futures, private equities)	0.2	2.9	3.1
100.0	86.5	13.5	100.0

# 24g Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels etc.

The significant assumptions used by the actuary have been:

# **Financial and Mortality Assumptions**

31 March	31 March
2017	2018
3.1% Rate of Inflation (RPI)	3.2%
2.0% Rate of Inflation (CPI)	2.1%
3.5% Rate of increase in salaries	3.6%
2.0% Rate of increase in pensions	2.1%
2.6% Rate for discounting scheme liabilities	2.6%
Longevity at 65 for current Pensioners (years): 24.0 Men (LGPS) 27.0 Women (LGPS)	24.1 27.2
Longevity at 65 for future Pensioners (years): 26.0 Men (LGPS) 29.3 Women (LGPS)	26.2 29.4

Each member is assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

# Sensitivity analysis of financial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the preceding table. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. For example the assumptions around longevity assume that life expectancy increases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous method. A sensitivity analysis has not been undertaken on unfunded benefits as it is not material.

# Impact on the present value of the defined benefit obligation at 31 March 2018 from changes in assumptions

	Increase in assumption		Decrease in assumption	
	£'000	%	£'000	%
Discount rate (increase / decrease 0.1% per annum)	(69,430)	-1.9	70,760	1.9
Salary increase rate (increase / decrease 0.1% per annum)	13,610	0.4	(13,480)	-0.4
Pension increase rate (increase / decrease 0.1% per annum)	57,030	1.5	(56,080)	-1.5
Longevity (increase / decrease by 1 year)	108,540	2.9	(108,040)	-2.9

#### Impact on the County Council's Cash Flows

The objectives of the scheme are to keep employers' contribution rates as stable as possible. The aim is to achieve a funding level of 100% over a period of 19 years from 1 April 2017. Funding levels are monitored on an annual basis. The latest triennial valuation was completed on 31 March 2016, and is reflected in the 2016/17 financial statements.

From 1 April 2014 the scheme became a career average revalued earnings scheme following changes introduced in the Public Pensions Services Act 2013. Prior to this the scheme was based on a member's final salary and length of pensionable service. More information on the nature of the scheme can be found in the Pension Fund Accounts.

The total contributions expected to be made to the Hampshire LGPS by the County Council in the year to 31 March 2019 is £87.49 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

The weighted average duration of the defined benefit obligation for scheme members is 19 years (19 years in 2016/17).

# 25 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the County Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that payments will be required or the amount of the payment cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed below.

The County Council self-insures and therefore funds its own liability claims. The liabilities are uncertain but to cover them a provision is maintained for known liability claims, assessed at £22.9 million at 31 March 2018 (see note 23) and a reserve earmarked for potential future claims, £25.6 million at 31 March 2018 (see note 4i).

The County Council has received claims under part 1 of the Land Compensation Act 1973 relating to the Bus Rapid Transit route in Gosport. It is unlikely that these claims will be resolved in the near future, so it is not possible to quantify reliably the potential liability associated with them.

#### 26 Events after the Balance Sheet date

The Statement of Accounts was authorised by the Chief Financial Officer on 24 May 2018. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

#### 27 Cash Flow Statements

In the Cash Flow Statements, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the County Council's cash management.

Cash is represented by cash in hand in the County Council's main bank account, in schools' local bank accounts and in petty cash accounts held for minor day-to-day expenses by service units, including schools, across the whole county.

Cash equivalents are investments that are readily convertible the same day to known amounts of cash with insignificant risk of change in value.

# 27a Cash flow statement - operating activities

The cash flows for operating activities include the following items:

2016/17 £'000		2017/18 £'000
26,470	Interest paid	34,459
(7,415)	Interest received	(7,005)
(1,930)	Dividends received	(4,159)
17,125		23,295
	Adjustments to net surplus or deficit on the provision of services	
(129,641)	Depreciation	(136,522)
(24,219)	Impairments and downward revaluations	(35,875)
(3,950)	(Increase)/decrease in impairment for provision of bad debt	0
18,419	(Increase)/decrease in creditors	3,177
(8,489)	Increase/(decrease) in debtors	(3,813)
93	Increase/(decrease) in inventory	(66)
(38,870)	Pension Liability	(59,260)
(1,964)	Carrying amount of non-current assets sold	(9,084)
(169)	Carrying amount of assets transferred to academy / foundation Trust	(21,474)
	schools	
(7,854)	Adjustment for provisions	(2,622)
4,041	Movement in the value of investment properties	48,752
(1,325)	PPE written off as REFCUS	(1)
(193,928)	Non-cash movement	(216,788)

Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities

2016/17		2017/18
£'000		£'000
4,374	Proceeds from the sale of PPE etc	27,328
134,838	Capital grants and contributions	192,162
0	Interest on developer contributions	0
139,212	Investing/financing cash flows	219,490

# 27b Cash Flow Statement - investing activities

2016/17		2017/18
£'000		£'000
	Cash outflows	
154,187	Purchase of property, plant and equipment	163,119
391,050	Purchase of short-term and long-term investments	416,930
3,167	Other expenditure	6,904
	Cash inflows	
(4,191)	Proceeds from the sale of property, plant and equipment	(27,440)
(383,143)	Proceeds from the sale of short-term and long-term investments	(325,360)
(149,748)	Capital grants	(192,506)
(2,829)	Other income	(4,913)
8,493	Net cash outflow from investing activities	36,734

# 27c Cash Flow Statement - financing activities

2016/17 £'000	_	2017/18 £'000
	Cash outflows	
	Cash payments for the reduction of the outstanding liabilities relating	
6,353	to PFIs	6,802
120,576	Repayments of short- and long-term borrowing	157,591
	Cash inflows	
(104,412)	Cash receipts of short- and long-term borrowing	(114,807)
(705)	Other receipts from financing activities	(1,324)
21,812	Net cash outflow from financing activities	48,262

# 28 Accounting Policies

# 28.1. General principles

The Statement of Accounts summarises the County Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These require the accounts to be prepared in accordance with proper accounting practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

## 28.2. Accruals of income and expenditure

Sums due to, or from, the County Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year – that is, on an accruals basis. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the County Council provides the relevant goods or services
- Supplies and services expenditure is recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as stock in the Balance Sheet
- Employee benefits, including pension benefits are accounted for as they are earned
- Interest payable and receivable on borrowing and lending is accounted for on the basis of an effective interest rate calculated for the relevant financial instrument rather than the actual cash paid or received in accordance with the contract.

However, there are some exceptions, as follows:

- Payments to casual staff and overtime are accounted for with the basic pay with which they are paid.
- Electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years.
- Pension Fund income includes dividends declared in the income tax year.

The above exceptions apply every year, so they do not have a material effect on the year's accounts.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Amounts below £10,000 are not routinely accrued at year end even if they meet the other conditions. This is due to the fact that they are not material in the scale of the County Council's overall income and expenditure. Where items of income or expenditure fall

below this amount they may still be accrued in certain circumstances such as where they are subject to specific terms and conditions relating to a grant or where there is an element of cost recovery. Items of a similar nature which are individually below this £10,000 threshold may be aggregated if they could be said to have a similar material effect upon the reporting of a particular income, or expenditure head or cost centre.

## 28.3. Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

#### 28.4. Stock and long term contracts

Stocks held in the balance sheet are valued according to their differing nature and purpose. This does not accord with the International Accounting Standard 2 which requires stock to be valued at the lower of the original purchase price and current value but the differences in the valuations are not material. For example, County Supplies stock is valued at the latest buying price, while other stock is mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

Long term contracts are accounted for on the basis of charging services with the value of works and services received under the contract during the financial year. The cost of capital schemes that are in progress at the date of the balance sheet are included as assets under construction within Property, Plant and Equipment.

#### 28.5. Contingent assets

A contingent asset arises where an event has taken place that gives the County Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the

accounts where it is probable that there will be an inflow of economic benefits or service potential.

#### 28.6. VAT

Income and expenditure excludes VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

#### 28.7. Transferred functions

The County Council has transferred to a charitable company, the operational responsibility for its Arts and Museums service with effect from 1 November 2014. The County Council retains ownership of the collections and the land and buildings occupied by the service and makes an annual revenue grant towards the running costs of the service.

## 29 Critical judgements in applying accounting policies

In applying its accounting policies, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

#### 29.1. Asset classifications

The County Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment (PPE). The classification determines the valuation and depreciation method to be used. These judgements are based on the main reason that the County Council is holding the asset. Further details can be found in the PPE and Investment Property notes.

#### 29.2. Lease classifications

The County Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. For the purposes of lease classifications a de minimis level is used of £500,000.

As a result, no material finance leases have been identified. In addition, judgements have been made on whether any contracts for services include embedded leases. None have been identified.

#### 29.3. Providing for potential liabilities

The County Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that could eventually result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending cases based on experience in previous years or in other local authorities.

# 29.4. Future funding for local government

There is a high degree of uncertainty about future levels of funding for local government. However, earmarked reserves will provide funding for investment in a range of efficiency measures to ensure services can continue to be provided at an appropriate level.

# 29.5. Production of group accounts

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

# 29.6. Reportable segments

The service analysis within the Comprehensive Income and Expenditure Statement and the segmental analysis within the Expenditure and Funding Analysis is based on the County Council's internal management reporting as set out in the budget report. The majority of spend is controlled by departmental directors, with central control of capital financing, contingencies and specific grant income.

# 30 Uncertainties relating to assumptions and estimates used

There is one item in the County Council's Balance Sheet at 31 March 2018 for which there is a risk of adjustment in the forthcoming financial year and that is the pension liability. Estimation of the net liability to pay pensions depends on a number of complex assumptions related to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The County Council engages a firm of consulting actuaries to provide expert advice on the assumptions to be applied.

The effects of changes in individual assumptions on the pension liability can be measured and a sensitivity analysis is provided in note 24g.

# 31 Accounting standards issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The additional disclosures that will be required in the 2018/19 financial statements in respect of accounting changes introduced in the 2018/19 Code are:

IFRS 15 Revenue from Customers with Contracts from 1 April 2018

The impact of IFRS 15 on the 2018/19 Statement of Accounts is still being assessed, although it is not anticipated this will be material.

IFRS 9 Financial Instruments from 1 April 2018

There is current uncertainty on the impact of IFRS9 and the resulting accounting transactions, this is likely to be informed by a potential statutory override to permit an accounting entry to remove the impact of specific value movements from the General Fund. We plan to elect to account for individual investments in equity instruments at fair value through other comprehensive income, but cannot currently assess the impact on the authority's financial statements.

### **Pension Fund Accounts**

Fund Account		2016/17	2017/18
	See note	£'000	£'000
Dealings with members, employers and others directly involved in the Fund	note	£ 000	2 000
Contributions Transfers in from other pension funds	7	257,508 13,765 <b>271,273</b>	280,919 12,285 <b>293,204</b>
Benefits Payments to and on account of leavers	8	(235,256) (14,713) <b>(249,969)</b>	(239,202) (13,992) <b>(253,194)</b>
Net additions from dealings with members	_	21,304	40,010
Management expenses	9_	(31,045)	(40,732)
Net additions/withdrawals inc. fund management expenses		(9,741)	(722)
Returns on investments			
Investment income Taxes on income Profits and losses on disposal of investments and	10	112,567 (2,003)	112,321 (826)
changes in the market value of investments	11a	1,022,985	165,252
Net return on investments		1,133,549	276,747
Net increase in the net assets available for benefits during the year	_ _	1,123,808	276,025
Opening net assets of the scheme Closing net assets of the scheme		5,213,406 6,337,214	6,337,214 6,613,239
Net Assets Statement for the year ending 31 March 2018		31 March 2017	31 March 2018
	See note	£'000	£'000
Investment assets Cash deposits Investment liabilities		6,116,083 19,806 (2,543)	6,432,182 15,954 (5,320)
Total net investments	11	6,133,346	6,442,816
Long term debtors Current assets Current liabilities	20 18 19	6,085 216,644 (18,861)	4,564 172,001 (6,142)
Net assets of the Fund available to fund benefits at the period end	_	6,337,214	6,613,239

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the period end. The actuarial present value of promised retirement benefits is disclosed at Note 17.

### Notes to the Pension Fund accounts

## 1. Description of Fund

The Hampshire Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Hampshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the Scheme.

### a) General

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit pension scheme administered by Hampshire County Council to provide pensions and other benefits for pensionable employees of Hampshire County Council, Portsmouth and Southampton City Councils, the 11 district councils in Hampshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Hampshire Pension Fund Panel and Board, which is a committee of Hampshire County Council.

#### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hampshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar

bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 333 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2017	31 March 2018
Number of employers with active members	317	333
Number of employees in Scheme		
County Council	26,874	26,719
Other employers	30,907	31,158
Total	57,781	57,877
Number of pensioners County Council Other employers Total	16,706 21,510 <b>38,216</b>	17,344 22,452 <b>39,796</b>
Deferred pensioners		
County Council	31,693	34,334
Other employers	32,367	35,169
Total	64,060	69,503
Total members in the Pension Fund	160,057	167,176

### c) **Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016. Currently employer contribution rates for most employers range from 14.1% to 16.6% of pensionable pay plus a past service deficit contribution.

## d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, as summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Hampshire Pension Fund's website: http://www3.hants.gov.uk/pensions

## 2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

## 3. Summary of significant accounting policies

## **Fund Account – revenue recognition**

## a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

## b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase Scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

## c) Investment income

## i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate

basis.

### ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

### iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

### Property-related income iv)

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

#### v) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

## Fund Account - expense items

### Benefits payable d)

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

#### e) **Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Income and expenditure excludes VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

# f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However in the interest of greater transparency, the Council discloses its Pension Fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

## **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

## Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

## Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2017/18 £3.5 million of fees is based on such estimates (2016/17 £0.4 million).

### **Net Assets Statement**

## g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

### h) Freehold and leasehold properties

The properties were valued on 31 March 2018 by an external valuer, Paul Willis, BSc MRICS of Colliers International, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Global Standards 2017; see Note 13 for more details.

### i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-ofyear spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### i) **Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 12).

### k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### I) **Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### Actuarial present value of promised retirement benefits m)

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 17).

### n) Additional voluntary contributions

Hampshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Equitable Life, but only by legacy Equitable Life AVC contributors (closed to new members) who are invested in its building society fund or for an additional death-in-service grant. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Note 21).

### 0) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

## 4. Critical judgements in applying accounting policies

## Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the International Private Equity and Venture Capital Valuation Guidelines. The value of unquoted private equity investments at 31 March 2018 was £291 million (£241 million at 31 March 2017).

# **Pension fund liability**

The pension fund liability is recalculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions, which are agreed with the actuary and are summarised in Note 16.

These actuarial revaluations are used to set future employer contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

# 5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2018 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results		
		differ from assumptions		
Actuarial present	Estimation of the net liability	The effects on the net		
value of promised	to pay pensions depends on	pension liability of changes		
retirement benefits	a number of complex	in individual assumptions		
(Note 17)	judgements relating to the	can be measured. For		
	discount rate used, the rate	instance, a 0.5% increase in		
	at which salaries are	the discount rate		
	projected to increase,	assumption would result in		
	changes in retirement ages,	a decrease in the pension		
	mortality rates and expected	liability of approximately		
	returns on pension fund	£760 million. A 0.25%		
	assets. A firm of consulting	increase in assumed		
	actuaries is engaged to	earnings inflation would		
	provide the Fund with expert	increase the value of		
	advice about the	liabilities by approximately		
	assumptions to be applied.	£60 million, and a one-year		
		increase in assumed life		
		expectancy would increase		
		the liability by approximately		
		£230 million.		
Debtors	At 31 March 2018, the Fund	If collection rates were to		
	had a balance of debtors and	deteriorate, a doubling of		
	prepayments of £58.4	the amount of the		
	million. A review of debtor	impairment of doubtful		
	balances suggested that an	debts would require an		
	impairment of £0.033 million	additional £0.033 million to		
	was appropriate. However, in	be set aside as an		
	the current economic	allowance.		

Item	Uncertainties	Effect if actual results
		differ from assumptions
	climate, it is not certain that	
	such an allowance would be	
	sufficient.	
Private equity	Private equity investments	The total private equity
investments (Note	are valued at fair value in	investments in the financial
13)	accordance with the	statements are £291 million.
	International Private Equity	The investment manager
	Venture Capital Valuation	recommends a tolerance of
	Guidelines. These	+/- 10% around the net
	investments are not publicly	asset values on which the
	listed and as such there is a	private equity valuation is
	degree of estimation involved	based. This equates to a
	in the valuation.	tolerance of +/- £29.1million.
Hedge funds (Note	Hedge funds are valued at	The total hedge fund value
13)	the sum of the fair values	in the financial statements is
	provided by the	£206 million. There is a risk
	administrators of the funds	that this investment may be
	plus adjustments that the	under or overstated in the
	funds' directors or	accounts. The investment
	independent administrators	manager recommends a
	judge necessary. These	tolerance of +/- 5% around
	investments are not publicly	the net asset values on
	listed and as such there is a	which the hedge fund
	degree of estimation involved	valuation is based. This
	in the valuation.	equates to a tolerance of +/-
		£10.3 million.

# 6. Events after the reporting date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

# 7. Contributions receivable

By category	By	cate	ego	ry
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	2016/17 £'000	2017/18 £'000
Employees' contributions	60,963	63,029
Employers' contributions Normal contributions Deficit recovery contributions Total employers' contributions	131,096 65,449 196,545	141,749 76,141 217,890
Total	257,508	280,919

By authority	2016/17 £'000	2017/18 £'000
Administering authority Scheduled bodies Admitted bodies Community admission bodies Transferee admission bodies Resolution bodies	96,996 148,482 7,575 707 2,462 1,286	104,587 161,667 10,159 2,548 552 1,406
Total	257,508	280,919

# 8. Benefits payable

# By category

	2016/17 £'000	2017/18 £'000
Pensions Commutation and lump sum retirement	190,471	198,454
benefits	40,744	36,008
Lump sum death benefits	4,041	4,740
Total	235,256	239,202
By authority		
	2016/17	2017/18
	£'000	£'000

Administering authority	87,930	88,476
Scheduled bodies	136,618	138,686
Admitted bodies	5,686	7,054
Community admission bodies	1,891	2,103
Transferee admission bodies	2,249	1,914
Resolution bodies	882	969
Total	235,256	239,202

# 9. Management expenses

	2016/17 £'000	2017/18 £'000
Administrative costs Investment management expenses Oversight and governance costs	1,920 28,497 628	2,000 38,186 546
Total	31,045	40,732

This analysis of the costs of managing the Hampshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

In additional to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 11a).

## 9a) Investment Management Expenses

	2016/17	2017/18
	£'000	£'000
Management fees	24,447	28,161
Custody fees	140	238
Transaction costs	3,910	9,787
Total	28,497	38,186

# 10. Investment income

	2016/17 £'000	2017/18 £'000
Income from bonds Income from equities Pooled property investments Pooled investments – unit trusts and other managed funds Rents from property Interest on cash deposits Alternative investment income Stock lending Other	8,182 59,991 2,513 609 21,329 616 18,536 595 196	7,048 58,698 1,479 808 26,351 245 16,305 939 448
Total before taxes	112,567	112,321

# 11. Investments

Tit investments	31 March 2017	31 March 2018
Bonds	£'000	£'000
UK		
Public sector quoted	1,548	1,530
Corporate quoted	11,781	9,949
Overseas Public sector quoted	160,998	184,525
Public sector quoted	12,878	12,167
Corporate quoted	57,197	48,525
	044.400	050.000
Equities	244,402	256,696
UK		
Quoted	822,111	860,112
Overseas		
Quoted	1,646,005	1,792,145
	2,468,116	2,652,257
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	1,427,909	1,438,587
Unit trusts	366,217	365,028
Overseas	4= 0=0	40 - 4-
Fixed income unit trusts Unit trusts	15,252 737,484	13,517 724,328
	·	
	2,546,862	2,541,460
Pooled property investments	30,726	49,270
Alternative investments	445,974	497,470
Property Derivative contracts:	377,915	433,070
- Futures	430	950
- Forward currency contracts	1,548	945
- Purchased/written options	108	0
- Spot foreign exchange contracts	2	64
	856,703	981,769
Cash deposits	19,806	15,954
Total investment assets	6,135,889	6,448,136
Investment liabilities		
- Futures	(555)	(1,187)
- Forward currency contracts	(1,874)	(4,045)
- Purchased/written options	(112)	0
- Spot foreign exchange contracts  Derivatives	(2)	(88) (5,320)
Total investment liabilities	(2,543)	(5,320)
	• • • •	
Net investment assets	6,133,346	6,442,816

# 11a) Reconciliation of movements in investments and derivatives

Period 2017/18	Market Purchases value during the year and		Sales during the year and	Change in market value	Market value
	1 April 2017	derivative payments	•	during the year	31 March 2018
	£'000	£'000	£'000	£'000	£'000
Bonds	244,402	395,308	(366,883)	(16,131)	256,696
Equities	2,468,116	1,104,887	(1,023,775)	103,029	2,652,257
Pooled investments	2,546,862	2,569,913	(2,614,201)	38,886	2,541,460
Pooled property investments	30,726	20,825	(4,777)	2,496	49,270
Alternative investments	445,974	291,930	(248,284)	7,850	497,470
Property	377,915	43,277	(3,648)	15,526	433,070
	6,113,995	4,426,140	(4,261,568)	151,656	6,430,223
Derivative contracts:					
- Futures	(125)	7,889	(6,391)	(1,610)	(237)
- Forward foreign exchange	(326)	20,036	(39,445)	16,635	(3,100)
- Purchased/written options	(4)	58	(40)	(14)	(0)
Other investment balances:	(455)	27,983	(45,876)	15,011	(3,337)
- Cash deposits	19,806			(1,415)	15,954
- Spot foreign exchange contracts	0				(24)
Not investore and a sector	0.400.045			405.050	0.440.040
Net investment assets	6,133,346			165,252	6,442,816

Period 2016/17	Market value	Purchases during the year and		Change in market value during the year	Market value
	1 April 2016	derivative payments	derivative receipts		31 March 2017
	£'000	£'000	£'000	£'000	£'000
Bonds	246,436	320,966	(350,550)	27,550	244,402
Equities	1,909,250	1,410,816	(1,288,188)	436,238	2,468,116
Pooled investments	2,039,243	0	(2,718)	510,337	2,546,862
Pooled property investments	36,480	0	(5,383)	(371)	30,726
Alternative investments	298,727	246,462	(166,746)	67,531	445,974
Property	375,280	4,600	(2,617)	652	377,915
	4,905,416	1,982,844	(1,816,202)	1,041,937	6,113,995
Derivative contracts:					
- Futures	88	11,518	(12,377)	646	(125)
- Forward foreign exchange	(5,357)	84,415	(51,180)	(28,204)	(326)
- Purchased/written options	3	(1,178)	(12)	1,183	(4)
-	(5,266)	94,755	(63,569)	(26,375)	(455)
Other investment balances:					
- Cash deposits	36,451			7,423	19,806
- Spot foreign exchange contracts	(9)				0
Net investment assets	4,936,592			1,022,985	6,133,346

Purchases and sales of derivatives are recognised in Note 11a above as follows:

- Futures on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

## 11b) Investments analysed by fund manager

	Market value 31 March 2017		Market value 31 March 2018	
	£'000	%	£'000	%
Aberdeen-Standard	383,546	6.1	367,850	5.6
Acadian Baillie Gifford	118,986 558,474	1.9 8.8	433,309 709,181	6.5 10.7
CBRE Global Investors	401,724	6.3	479,656	7.3
Legal & General Newton	709,623 729,437	11.2 11.5	0 416,024	0.0 6.3
Schroders	802,242	12.7	812,062	12.3
State Street UBS	1,789,197 0	28.2 0.0	0 2,505,806	0.0 37.9
Western	264,967	4.2	272,154	4.1
	5,758,196	90.9	5,996,042	90.7
Other investments	487,687	7.7	503,879	7.6
Other net assets	91,331	1.4	113,318	1.7
Total	6,337,214	100.0	6,613,239	100.0

All the companies named above are registered in the United Kingdom.

# 11c) Stock lending

The Fund's Investment Strategy Statement sets the parameters for the Fund's stock lending programme. At the year end, the value of quoted stock on loan was £76.5 million (£237.3 million 2016/17). These stocks continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank, JP Morgan. As at 31 March 2018, the custodian bank held collateral at fair value of £84.6 million (£262.1 million 2016/17). Collateral consists of acceptable securities and government debt.

Stock lending commissions are remitted to the Fund via the custodian bank. During the period the stock is on loan the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

## 11d) Property holdings

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase or sell any of these properties. The Pension Fund is required to meet the cost of repairs, maintenance or enhancements necessary to maintain the investment income of its property assets.

The future minimum lease payments receivable by the Fund are as follows.

	Year ending 31 March 2017 £'000	Year ending 31 March 2018 £'000
Within one year	20,291	23,892
Between one and five years	63,969	71,386
Later than five years	60,204	59,971
Total future lease payments due	444.404	455.040
under existing contracts	144,464	155,249

## 12. Analysis of derivatives

## Objectives and policies for holding derivatives

The Fund's investments in derivatives are to hedge liabilities or to hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements agreed between the Fund and the various investment managers.

All the derivative future and option contracts are exchange traded; in other words, none are 'over the counter' (OTC). The forward foreign currency contracts are all OTC contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

## i) Futures

The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

## ii) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas

investment returns, a significant proportion of the Fund's portfolio is in foreign currency. To reduce the volatility associated with fluctuating currency rates, derivative contracts are used in some instances.

# iii) Options

The Fund wants to benefit from the returns available from investing in fixed interest securities but wishes to minimise the risk of loss of value through adverse price movements. No options were held at 31 March 2018.

## **Futures**

Outstanding exchange traded futures contracts are as follows:

Туре	Expires	Economic exposure	Market value 31 March	Economic exposure	Market value 31 March
		£'000	2017 £'000	£'000	2018 £'000
Assets		2 000	2 000	2 000	2 000
UK Fixed Income	Less than				
Futures	one year	0	0	1,808	35
Overseas fixed	Less than				
income futures	one year	101,928 _	430	137,025 _	915
Total assets			430		950
Liabilities					
UK Fixed Income	Less than				
Futures	one year	(16,311)	(147)	0	0
Overseas fixed	Less than				
income futures	one year	(127,476)	(408)	(76,858)	(1,187)
Total liabilities			(555)		(1,187)
Net futures			(125)	_	(237)

# **Open forward currency contracts**

At 31 March 2018, the Fund had open forward currency contracts in place with a net unrealised loss of £3.100 million.

Settlements	Currency bought	Local value '000	Currency sold*	Local value	Asset value £'000	Liability value £'000
Up to 1 month	GBP	133	EUR	(150)	2	
1 to 6 months	GBP	3,180	AUD	(5,658)	91	
1 to 6 months	GBP	5,444	CAD	(9,557)	164	
1 to 6 months	GBP	43,950	EUR	(49,758)	285	(4)
1 to 6 months	GBP	24,918	JPY	(3,880,900)		(1,115)
1 to 6 months	GBP	2,306	MXN	(61,584)		(82)
1 to 6 months	GBP	3,265	PLN	(15,490)	44	
1 to 6 months	GBP	169,983	USD	(241,979)	30	(2,291)
1 to 6 months	GBP	2,695	ZAR	(44,930)	9	
1 to 6 months	AUD	3,532	GBP	(1,975)		(47)
1 to 6 months	COP	10,740,760	USD	(3,664)	127	
1 to 6 months	EUR	5,000	GBP	(4,453)		(65)
1 to 6 months	IDR	51,685,690	USD	(3,748)	4	(1)
1 to 6 months	JPY	189,834	GBP	(1,217)	56	
1 to 6 months	KRW	1,600,000	USD	(1,495)	11	(3)
1 to 6 months	MXN	3,980	GBP	(149)	5	
1 to 6 months	PLN	1,480	GBP	(313)		(5)
1 to 6 months	RUB	213,000	USD	(3,742)		(39)
1 to 6 months	USD	1,934	EUR	(1,565)	19	(16)
1 to 6 months	USD	7,377	GBP	(5,276)	12	(37)
1 to 6 months	USD	3,588	IDR	(49,273,231)	30	(22)
1 to 6 months	USD	7,425	INR	(487,160)	18	(34)
1 to 6 months	USD	16,598	KRW	(17,962,081)		(222)
1 to 6 months	USD	3,871	MXN	(71,392)	23	(37)
1 to 6 months	ZAR	44,364	USD	(3,740)	15	(25)
Open forward	currency	contracts at	31 March	2018	945	(4,045)
Net forward currency contracts at 31 March 2018						(3,100)
•	Prior year comparative					
Open forward	d currency	contracts at	31 March	2017	1,548	(1,874)
Net forward currency contracts at 31 March 2017						(326)

\* List of currencies

AUD = Australian Dollar CAD = Canadian Dollar COP = Columbian Peso EUR = Euro GBP = British Pound IDR = Indonesian Rupiah INR = Indian Rupee JPY = Japanese Yen KRW = South Korean Won MXN = Mexican Peso PLN = Polish Zloty RUB = Russian Ruble

USD = United States Dollar ZAR = South African Rand

# Purchased/written options

Investment underlying option contract	Expires	Put/call	Notional holding 31-Ma		holding 31-Ma	
Acceta			£'000	£'000	£'000	£'000
Assets Overseas fixed interest purchased	Less than one month	Call	106	97	0	0
Overseas fixed interest purchased	One to three months	Call	8	4	0	0
Overseas fixed interest purchased	One to three months	Put	14	7	0	0
Total assets				108		0
Liabilities						
Overseas cash purchased	One to three months	Put	(28)	(10)	0	0
Overseas fixed interest written	One to three months	Call	(189)	(97)	0	0
Overseas fixed interest written	One to three months	Put	(25)	(5)	0	0
Total liabilities				(112)		0
Net purchased/writt	_	(4)	_	0		

There were no purchased/written options held at 31 March 2018

## 13. Fair value - basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Descriptio n of asset	Valuatio n hierarch y – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Market quoted investment s	1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Spot foreign exchange contracts	1	Market exchange rates at the year end	Not required	Not required
Futures and options in UK bonds	1	Published exchange prices at the year end	Not required	Not required
Exchange traded pooled investment s	1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	2	Market forward exchange rates at the year end	Exchange rate risk	Not required
Overseas bond options	2	Option pricing model	Annualised volatility of counterparty credit risk	Not required

Descriptio n of asset	Valuatio n hierarch y – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Pooled investment s – property funds	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required
Freehold and leasehold properties	2	Valued at fair value at the year end using the investment method of Mark White, BSc MRICS of Colliers International in accordance with the RICS Valuation - Global Standards 2017	Comparable recent market transactions on arm's-length terms	Not required

Descriptio n of asset	Valuatio n hierarch y – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Alternative Investment s – Hedge funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Alternative	3	Comparable valuation	EBITDA multiple	Valuations could be
Investment s – Private		of similar companies in accordance with	Revenue multiple	affected by material events occurring
equity		International Private Equity Venture Capital	Discount for lack	between the date of the financial
		Valuation Guidelines.	of marketability	statement provided and the Pension
			Control premium	Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

# Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with the Fund's investment managers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018 £'000	Value on increase £'000	Value on decrease £'000
Alternative Investments - Hedge funds	5%	206,457	216,780	196,134
Alternative Investments - Private equity	10%	291,013	320,114	261,912

## 13a) Fair value hierarchy

Assets and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair value. Transfers between levels are recognised in the year in which they occur.

### Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

## Level 2

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

## Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservabl e inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets Financial assets at fair value through profit and loss Non-financial assets	5,439,261	62,381	497,470	5,999,112
at fair value through profit and loss		433,070		433,070
Financial liabilities at fair value through profit and loss	(1,275)	(4,045)	0	(5,320)
Net investment assets	5,437,986	491,406	497,470	6,426,862
Value and Od Marrah	Quoted market price	Using observable inputs	With significant unobservabl e inputs	
Values at 31 March 2017	market	observable	significant unobservabl	Total
Values at 31 March 2017	market price	observable inputs	significant unobservabl e inputs	Total £'000
2017  Financial assets Financial assets at fair value through profit and loss	market price Level 1	observable inputs	significant unobservabl e inputs Level 3	
2017  Financial assets  Financial assets at fair value through	market price Level 1 £'000	observable inputs  Level 2 £'000	significant unobservabl e inputs Level 3 £'000	£'000
Financial assets Financial assets at fair value through profit and loss Non-financial assets at fair value through	market price Level 1 £'000	observable inputs  Level 2 £'000  45,260	significant unobservabl e inputs Level 3 £'000	<b>£'000</b> 5,738,166

The table now includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included. There were no transfers in classifications in 2017/18.

# 13b) Reconciliations of fair value measurements within level 3

Period 2017/18	Market value	Purchases during the year and	Sales during the year and	Change in market value	Market value
	1 April 2017	derivative payments	derivative receipts	during the year	31 March 2018
	£'000	£'000	£'000	£'000	£'000
Alternative investments	445,974	291,930	(248,284)	7,850	497,470

### 14 **Financial instruments**

# 14a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

Fair value	March 2017 Loans and receivables	Financial liabilities at amortised cost		Fair value	March 2018 Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000	Financial assets	£'000	£'000	£'000
244,402			Fixed interest securities	256,696		
2,468,116			Equities	2,652,257		
2,546,862			Pooled investments	2,541,460		
30,726			Pooled property investments	49,270		
445,974			Alternatives	497,470		
377,915			Property	433,070		
2,088			Derivative contracts	1,959		
	182,932		Cash		134,081	
	8,613		Debtors		12,168	
6,116,083	191,545	0		6,432,182	146,249	0
			Financial liabilities			
(2,543)			Derivative contracts	(5,320)		
		(4,987)	Creditors			(5,058)
(2,543)	0	(4,987)		(5,320)	0	(5,058)
6,113,540	191,545	(4,987)		6,426,862	146,249	(5,058)

## 14b) Net gains and losses on financial instruments

31 March 2017 £'000	31 March 2018 £'000
Financial assets	
1,049,360 Fair value through profit and loss  Financial liabilities	166,667
(26,375) Fair value through profit and loss	(1,415)
1,022,985 Total	165,252

The Administering Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## 15. Nature and extent of risks arising from financial instruments

## Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel and Board. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

## 15a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the

return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

## Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

## Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2017/18 reporting period based on a one standard deviation movement in the value of the Fund's investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-)
UK equities	9.45%
Overseas equities	10.16%
UK bonds	12.32%
Overseas bonds	6.46%
Property	3.31%
Alternative investments	7.87%
Cash	0.11%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset type	Value at	Potential market	Value on	Value on
	31 March	movement	increase	decrease
	£'000	£'000	£'000	£'000
Total assets 2018	6,442,816	621,994	7,064,810	5,820,822
Total assets 2017	6,133,346	598,194	6,731,540	5,535,152

### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

## Interest rate risk sensitivity analysis

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates. The Pension Fund's fixed interest investment manager has applied their market experience to the Fund's portfolio of investments to calculate the effect of a change in interest rates. The figures below for Fixed Interest Securities do not include the Fund's pooled investment in Index Linked Gilts. This better reflects the Fund's approach to the management of investment risk and how this analysis is applied to the Fund's different investments.

Assets exposed to interest rate risk	Value as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash & cash equivalents	118,127	0	118,127	118,127
Cash deposits	15,954	0	15,954	15,954
Bonds	256,697	20,800	235,897	277,497
Total	390,778	20,800	369,978	411,578
Assets exposed to interest rate risk	Value as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
interest rate risk	31 March	movement on 1% change in		
-	31 March 2017	movement on 1% change in interest rates	increase	decrease
interest rate risk  Cash & cash	31 March 2017 £'000	movement on 1% change in interest rates	increase £'000	decrease
interest rate risk  Cash & cash equivalents	31 March 2017 £'000 163,126	movement on 1% change in interest rates £'000	£'000	£'000

Income exposed to interest rate risk	Amount receivable as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash deposits / cash & cash equivalents	245	1,585	1,830	(1,340)
Bonds	7,048	0	7,048	7,048
Total	7,293	1,585	8,878	5,708
Income exposed to interest rate risk	Amount receivable as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

0

2,310

8,080

11,006

8,080

6,386

8,080

8,696

## **Currency risk**

**Bonds** 

**Total** 

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds). The Fund holds both monetary and non-monetary assets denominated in currencies other than GB pounds.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

## Currency risk - sensitivity analysis

Following analysis of historical data the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 10.0% (as measured by one standard deviation).

A 10.0% fluctuation in the currency is considered reasonable based on the Pension Fund's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10.0% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset type	Value at	Potential market	Value on	Value on
	31 March	movement	increase	decrease
	£'000	£'000	£'000	£'000
Total assets 2018	2,659,756	265,450	2,925,206	2,394,306
Total assets 2017	3,079,956	286,435	3,366,391	2,793,521

#### 15b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties

are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Pension Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Pension Fund invests an agreed percentage of its funds in the money markets to provide diversification. The money market funds chosen all have AAA rating from a leading ratings agency.

The Pension Fund has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five years. The Fund's cash holding under its treasury management arrangements at 31 March 2018 was £74.591 million (31 March 2017: £63.463 million). This was held with the following institutions:

	Rating as	Balances as	Balances as
	at 31 March	at 31 March	at 31 March
	2018	2017	2018
		£'000	£'000
Money market funds			
Aberdeen	AAAm	6,340	0
Blackrock	AAAm	6,340	0
Deutsche	AAAm	6,340	6,560
Federated Investors UK	AAAm	6,340	7,390
Insight	AAAm	0	7,390
Standard Life	AAAm	6,340	7,390
Bank deposits			
Barclays	Α	0	5,580
Lloyds	Α	1,000	7,400
Nationwide Building Society	AAA	10,000	5,000
Nordea Bank AB	AA-	10,000	5,000
Rabobank	A+	5,000	5,000
Santander UK	AAA	0	5,000
Svenska Handelsbanken	AA-	4,810	4,060
Toronto-Dominion Bank	AAA	0	5,000
Treasury bills			
UK Government	Α	953	3,821
	_		
Total	•	63,463	74,591

#### 15c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2018 the value of illiquid assets was £955 million, which represented 14.8% of the total fund assets (2016/17 £830 million, which represented 13.6% of the total fund assets).

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows.

All financial liabilities at 31 March 2018 are due within one year.

# Refinancing risk

The key risk is that the Pension Fund will be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

# 16. Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2016. The next valuation will take place at 31 March 2019.

The key elements of the funding policy are:

- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met and that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years from 1 April 2017 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

At the 2016 actuarial valuation, the Fund was assessed as 81% funded (80% at the March 2013 valuation). This corresponded to a deficit of £1,240 million (2013 valuation: £1,087 million) at that time.

Contribution schedules have been agreed for the two groups of employers. Generally, employers in the Scheduled Body Group are required to pay 14.1% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for 2 years followed by 16.9% of Pensionable Pay from 1 April 2020. In addition, most Scheduled Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2016/17, but increasing at 8.8% p.a. with effect from 1 April 2017 for 3 years and increasing by 3.9% p.a. thereafter until 31 March 2036. Employers in the Admission Body Group are required to pay 16.6% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for two years followed by 19.1% of Pensionable Pay from 1 April 2020. In addition, most Admission Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2016/17, but increasing at 20.0% p.a. on 1 April 2017 and increasing by 3.9% p.a. thereafter until 31 March 2036.

Contribution schedules have also been agreed for the remaining employers who are not grouped. The contributions for those employers reflect the profiles of their membership, the approach taken to value the liabilities on exit, the covenant of the employer and take into account the recovery of any surplus or deficiency relating to their participation over an appropriate period.

The valuation of the Fund has been undertaken using the projected unit method for most employers, under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

# **Financial assumptions**

Full details of the assumptions used by the Fund's actuary are set out in the 2016 actuarial valuation report and summarised in the Statement of the Actuary.

Generally a common set of assumptions are adopted for all employers in the Fund with the exception of the discount rate (assumption for future investment returns) which is dependent on the circumstances of the employer. In setting the discount rate the actuary takes into account the financial risk of the employer and, if the employer is expected to exit the Fund in the future, the funding target that will be used in an exit valuation under Regulation 64.

The main actuarial assumptions that were used for the secure scheduled bodies in the Scheduled Body Group in the March 2016 actuarial valuation were as follows:

# Financial assumptions:

Discount rate	4.5% a year
Rate of general pay increases	3.5% a year
Rate of increase to pension accounts and deferred pension increases	2.0% a year
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% a year

The assets were valued at market value.

## Demographic assumptions:

A 65 year old male pensioner retiring in normal health in 2016 was assumed on average to live to 88.9 (rather than 89.6 under the assumptions adopted at the previous valuation). A 65 year old female pensioner retiring in normal health in 2016 was assumed on average to live to 91.9 (rather than 91.4).

#### Commutation assumption:

Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

#### 50:50 option:

All active members were assumed to remain in the Scheme they are in at the valuation date.

#### 17. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the Pension Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting the Fund's contribution rates and the Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 16). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2016 was £7,595 million (31 March 2013: £6,565 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date.

As noted above the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

The principal financial assumptions used by the Fund's actuary for the March 2016 IAS 19 calculation were:

Discount rate	3.4%
RPI inflation	2.9%
CPI inflation / pension increase rate assumption	1.8%
Salary increase rate	3.3%

# 18. Current assets

	31 March 2017 £'000	31 March 2018 £'000
Debtors:		
- Contributions due - employees	11,304	575
- Contributions due - employers	22,966	34,443
- Transfer values receivable (joiners)	4,720	1,521
- Tax	5,915	5,167
- Sundry debtors	8,613	12,168
Cash balances	163,126	118,127
Total	216,644	172,001
Analysis of debtors		
	31 March 2017	31 March 2018
	£'000	£'000
Central government bodies	4,158	6,789
Other local authorities	21,758	17,697
Other entities and individuals	27,602	29,388
Total	53,518	53,874

# 19. Current liabilities

	31 March 2017 £'000	31 March 2018 £'000
Sundry creditors	4,987	5,058
Transfer values payable (leavers)	12,426	0
Benefits payable	993	537
Tax	455	547
Total	18,861	6,142
Analysis of Creditors		
	31 March 2017	31 March 2018
	£'000	£'000
Central government bodies	457	582
Other local authorities	12,966	773
Other entities and individuals	5,438	4,787
Total	18,861	6,142

# 20. Long term debtors

With effect from 1 April 2005, the Magistrates Courts Service (a body participating in the Hampshire Pension Fund) became part of the Civil Service. Terms have been agreed for the transfer of liabilities from all Local Government Pension Schemes (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). Each affected LGPS fund's actuary has determined the value of the pensioner and deferred liabilities remaining with the LGPS and calculated the requirement for sufficient retained assets to match these liabilities.

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over 10 instalments commencing April 2012. The total amount of the remaining debt is £6.085 million; of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £4.564 million is a long term debtor.

	31 March 2017	31 March 2018
	£'000	£'000
Magistrates Courts - agreed liability		
settlement due from central	6,085	4,564
government body		
Total	6,085	4,564

# 21. Additional voluntary contributions

	Market value 31 March 2017 £'000	Market value 31 March 2018 £'000
Prudential	8,274	10,250
Zurich	8,188	7,503
Equitable Life	1,115	1,073
Total	17,577	18,826

During the year, AVCs of £3.051 million were paid directly to Prudential (2016/17: £2.491 million), £0.680 million to Zurich (2016/17: £0.987 million), and £0.006 million to Equitable Life (2016/17: £0.006 million).

## 22. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £104.587 million to the Fund in 2017/18 (2016/17 £96.996 million).

During the reporting period, the County Council incurred costs of £2.458 million (2016/17: £2.275 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The key management personnel of the Fund are the Director of Corporate Resources of Hampshire County Council, acting as Treasurer to the Fund, and the Head of Pensions, Investments and Borrowing. Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council's charge for the administration of the Fund above. Details of the salary of the Director of Corporate Resources can be found in the main accounts of Hampshire County Council.

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2018, the Fund had an average cash balance of £74.300 million (year to 31 March 2017: £123.100 million), earning interest of £0.241 million (2016/17 £0.490 million) on these funds.

# 23. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £227.584 million (31 March 2017: £160.642 million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds held in the alternative investments part of the Fund. The amounts 'called' by private equity funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

#### 24. Contingent assets

The Fund had no contingent assets on 31 March 2018.

# 25. Impairment losses

During 2017/18, the Fund has recognised an impairment loss for bad and doubtful debt of £0.033 million (2016/17: £0.042 million) for possible non-recovery of pensioner death overpayments, and there were no potential non-payment of cessation values where the employer is not backed up by a guarantee on 31 March 2018.

# **Annual Governance Statement for Hampshire County Council** and Hampshire Pension Fund

#### 1. Scope of Responsibility

Hampshire County Council is responsible for ensuring that:

- its business is conducted in accordance with the law and to proper standards.
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- pursuant to the Local Government Act 1999 it secures continuous improvements in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy.
- there is a sound system of internal control which facilitates the effective exercise of the County Council's functions and which include arrangements for the management of risk.

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel and Board. The combined Panel and Board is responsible for investment, management and governance of the Fund. This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement during 2017-2018.

#### 2. The purpose of Corporate Governance

The governance framework comprises the systems and processes, and cultures and values, by which the County Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the County Council to monitor the achievements of the County Council's strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of the County Council's policies aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2018 and up to the date of approval of the annual report and the statement of accounts.

The County Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' A copy of the Code is available on the County Council's Web site at:

Code of Corporate Governance

- 3. **Core Principles of good governance**
- 3.1 Behaving with Integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- 3.1.1 The County Council's Constitution is founded on it operating in an open and transparent way, and for the Leader of the County Council and the Chief Executive to set the tone for the organisation by creating a climate and culture of openness, support, and respect.
- 3.1.2 The County Council is committed to the highest ethical standards and has adopted a governance framework to re-enforce this philosophy as well as procedures to investigate any issues should the need arise. The framework, policies and procedures are set out in the County Council's Code of Corporate Governance which was adopted by the County Council during The Code of Corporate Governance demonstrates a comprehensive commitment on the part of the County Council to integrity, ethical values and the rule of law.
- An officer group comprising the Head of Governance and representatives 3.1.3 from Democratic and Member Services, Legal Services and the Insight and Engagement Unit has been established to specifically monitor new The Legislation Implementation and Review Group meet legislation. quarterly, or as required, and provides an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to implement it.
- 3.2 Ensuring openness and comprehensive stakeholder engagement.
- 3.2.1 The County Council's Corporate Strategy – the Serving Hampshire Strategic Plan - contains clear strategic aims which are communicated on the County Council's website and through various communications. The Plan provides an operating model for business planning and is informed by various departmental and partnership strategies and priorities.
- 3.2.2 Clear guidance and protocols on decision making, effective arrangements for the approval of exempt reports and easy to use templates for decision reports and records ensure that that the County Council takes decsions in public when appropriate and after a full consideration of relevant factors. Details of the framework relevant to decision making is set out in the Corporate Governance Framework.

- 3.2.3 Public consultation to inform decision making is undertaken in accordance with the County Council's Consultation Policy, which includes five principles of consultation setting out when and how the County Council will consult the public. Significant consultation is supported by the County Council's Insight and Engagement Unit team who operate within the Market Research Society's ethical Code of Conduct.
- 3.2.4 The results of all significant consultations are presented at the relevant Executive Member Decision Day to demonstrate how participants' views have been taken into account.
- 3.2.5 Each financial year, an annual report on the Pension Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.
- 3.2.6 In the autumn, a summary of the accounts, investment management and administrative arrangements is made available online to current, pensioner, and deferred members.
- 3.2.7 The Statement of Investment Principles is published and made available to scheme employers within three months of any amendments.
- 3.2.8 Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners
- 3.3 Defining outcomes in terms of sustainable economic, social and environmental benefits.
- 3.3.1 The strategic aims set out in the Serving Hampshire Strategic Plan include a description of the County Council's overarching ambitions for delivering positive economic, social and environmental outcomes for Hampshire. These aims are underpinned by a series of key priorities, which reflect, and are supported by, other detailed departmental plans and strategies. Progress against the strategic aims and priorities is tracked through quarterly performance updates to the County Council's Corporate Management Team and Cabinet. Arrangements for reporting corporate performance are set out in the County Council's Corporate Management Framework. All reports to decision making bodies must also demonstrate their link to the Serving Hampshire Strategic Plan, as well as the results of the relevant impact assessments.

- 3.4 Determining the interventions necessary to optimise the achievement of the intended outcomes.
- 3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decsions of the County Council ensures that decsions are only made after relevant options have been weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.
- 3.4.2 The Director of Corporate Resources advises the Pension Fund Panel and Board on all Pension Fund investment and administrative matters.
- 3.4.3 The Pension Fund's independent adviser, advises the Panel and Board on investment matters.
- The Pension Fund Panel and Board uses the Fund's actuary and other 3.4.4 consultants as necessary, for advice on matters when in-house expertise is not available. The Panel and Board takes advice from the actuary, the Fund's investment managers or specialist consultants or advisers as required on allocating assets, selecting investment managers, and investment performance targets.
- 3.4.5 Equality Impact Assessments (EIAs) are used throughout the organisation to assess the impact of service proposals and to inform decision making. A review group comprising the Head of Legal, Head of Finance, Corporate Equalities Lead and Assistant Chief Executive undertake periodic cumulative EIAs to understand the overall impact of service proposals on groups with characteristics protected under the Equalities Act (2010).
- The budget setting process is well established and Departments prioritise 3.4.6 budgets and spending in order to achieve intended outcomes. In recent years the budget setting process has inevitably focussed on the achievement of savings to meet reductions in Government grant funding but this aims to be achieved whilst remaining true to the Council's strategic aims and objectives. This includes the consideration of the wider social value that the County Council can generate through its operations.
- 3.4.7 A medium term financial strategy and three year capital programme is updated each year together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates.
- 3.4.8 Risks associated with the achievement of intended outcomes are detailed in Risk Registers held at Corporate, Department and project level. These evaluate the effectiveness of existing control measures as well as identifying proposed mitigation.

- 3.5 Developing the County Council's capacity including the capability of its leadership and the individuals within it
- 3.5.1 The relationship between Members and Officers is led by the Leader of the Council and the Chief Executive who have established a culture of mutual respect and co-operation. The role of the Chief Executive is set out in the County Council's Constitution and is well understood by the Members of the County Council. The Protocol for Member Officer Relations also provides clear guidance for both officers and Member on how to mange their relationships effectively.
- 3.5.2 The County Council has a well-established cross-party forum, the Member Development Group (MDG) that supports and oversees the development of Members in a number of ways, such as internal and external briefings and courses. This includes a well received monthly Briefing Programme together with ad hoc departmental briefings. The MDG is supported by the Democratic & Member Services Manager (Partnerships and Member Support) and the People Change Commissioner in the Workforce Development Team.
- 3.5.3 Members of the Joint Pension Fund Panel and Board and officers in Corporate Services have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate.
- 3.5.4 A training plan for members of the Joint Pension Fund Panel and Board has been prepared, and training logs for individual members are maintained.
- 3.5.5 The County Council regularly reviews the shape of its workforce against the needs of the service in the context of its capacity and capability requirements. This then informs a range of strategies, for example; recruitment, retention, operating models, ways of working and people development in order to provide effective leadership and deploy appropriate resources to meet the needs of services.
- 3.5.6 The Council's Valuing Performance policy provides a framework for staff and managers to meet, discuss and set goals in line with service requirements, following which regular reviews of performance, learning and progress takes place. Staff are held accountable for their own and their teams performance and are encouraged to use the range of learning opportunities that are available across the Council.
- 3.5.7 There is an emphasis on the need for high performance and resilience, of which health and wellbeing and continuous development are critical elements in the regular discussions between managers and staff.

- 3.6 Managing risks and performance through robust internal control and strong public financial management.
- 3.6.1 The County Council's Corporate Strategy is underpinned by the Corporate Performance Management Framework, which establishes how the quality of services for users is to be measured and reviewed on a regular basis. This includes quarterly reporting of progress against the *Serving Hampshire* Strategic Plan. The County Council's Annual Performance Report is published on the County Council's website and includes a summary of key areas of performance, including an analysis of any major performance risks and mitigations, as well as providing an overview of sources of external validation and customer feedback.
- 3.6.2 The County Council has in place a Risk Management Strategy, with oversight of arrangements provided by the Risk Management Board. The Audit Committee are responsible for considering the effect of the County Council's risk management arrangements.
- 3.6.3 A comprehensive Information Governance Framework is in place, overseen by the Risk Management Board, chaired by the Senior Information Risk Officer.
- 3.6.4 The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources.
- 3.6.5 The Audit Plan 2017 18 was developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's key risks and objectives, this includes a periodic review of the County Council's risk management processes.
- 3.6.6 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.
- 3.6.7 The internal audit plan incorporates provision for both proactive and reactive counter fraud and corruption work, which is underpinned by an embedded Anti Fraud & Corruption Strategy and Policy and Anti Bribery Act Policy.
- 3.6.8 The delivery of the internal audit plan enables the Chief Internal Auditor to provide an annual report providing an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control which is reported to Senior Management and the Audit Committee.
- 3.6.9 The County Council's Audit Committee is well established and reports to Full Council. Members of the Audit Committee have no executive responsibility for the management of the organisation, thus ensuring that they are sufficiently independent to scrutinise and challenge matters brought to their attention.

- 3.6.10 The Audit Committee has a clear 'Terms of Reference' providing an effective source of scrutiny, challenge and assurance regarding the arrangements for managing risk and maintaining an effective control environment.
- 3.6.11 The County Council has a well-developed and effective scrutiny function, the structure of which is formalised through the County Council's Constitution. This function is resourced to ensure that Members are able to robustly challenge the Council's decision-making, have active engagement in policy review and development, and monitor the performance of the County Council as a whole.
- 3.6.12 The County Council has strong financial management arrangements at both the strategic and operational level and consistently obtains unqualified opinions for its annual accounts and value for money assessment. The Section 151 Officer is a member of the Corporate Management team and all formal financial decision making has the benefit of the advice and review of the Chief Financial Officer or her representative.
- 3.6.13 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.
- 3.6.14 Financial management in key risk areas across the County Council focusses management alongside the budget activity and performance management processes and the financial management framework throughout all tiers of the organisation is appropriately advised and supported by the Finance Department, with a particular focus on the change management programmes that have been a feature of Departmental activity for many years.
- 3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.
- 3.7.1 The decision making guidance, protocols and templates referred to in the Code of Corporate Governance and the involvement of senior departmental officers, legal officers and finance officers ensures that public reports are written in a clear and accessible way with sufficient information to enable members of the public to formulate informed opinions on the matters for decision.
- Corporate Performance Management Framework provides a 3.7.2 transparent cycle of reporting on core performance metrics to CMT and Cabinet. Performance information is published online and is easily accessible to staff, partners and the public.
- 3.7.3 The 'Internal Audit Charter' is presented annually for approval by the Audit Committee. The Charter makes provision that 'Where it is considered necessary to the proper discharge of the internal audit function, the Chief

Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee).'

- The on-going work of internal audit is presented through a quarterly progress 3.7.4 report to Audit Committee providing an overview of service performance; delivery against the plan; and progress made by the organisation in the implementation of management actions agreed to mitigate risks identified through internal audit work.
- 3.7.5 Representatives of External Audit routinely attend Audit Committee meetings and present all External Audit reports. Any recommendations for corrective action detailed within External Audit reports are highlighted to Members who will track through to implementation. This is achieved through the clear and concise nature of the minutes to each meeting couple with the inclusion of any overdue recommendations within the internal audit progress report.
- 3.7.6 The internal audit plan includes provision to review the County Council's approach to governance, risk and controls for partnership working. Such reviews are formally reported through the Audit Committee with any significant issues highlighted accordingly.
- 3.7.7 Where appropriate internal audit will gain assurances from third parties to contribute to their overall assurance opinion.
- 3.7.8 Financial reporting complies with relevant statute, codes and good practice guidance and financial and performance information are reported consistently throughout the year alongside each other. Where relevant and appropriate performance comparisons are made to other organisations.

#### 4 Obtain assurances on the effectiveness of key controls

- 4.1 Appropriate assurance statements are received from designated internal and external assurance providers.
- 4.2 Key controls relating to risks, internal control (including financial management), and governance processes are identified by managers as part of the governance framework and recorded on regular returns. These are consolidated into the risk registers at corporate and departmental level. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and also carries out tests to confirm the level of compliance. Together the results of each review enable an audit opinion on effectiveness to be provided to management, and any actions for improvement to be agreed.

This assurance is given to each manager in respect of the controls they are responsible for in the form of an audit report and regular summaries are provided for Chief Officers and the Audit Committee to ensure each level of the County Council's management is kept informed of findings and opinions.

- 4.3 External sources of assurance include the annual opinion and value for money conclusion by external auditors, and statutory inspections of adults social care services, and children's services. These reports are subject to consideration by senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.
- 4.4 External sources of validation are being increasingly used to inform assessment of the organisations performance as a core part of the Corporate Performance Framework.

# 5 Evaluate assurances and identify gaps in control/assurance

- 5.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls.
- The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 5.3 The Head of Law and Governance and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.
- 5.4 One of the key elements of the Corporate Governance regime and the production of the Annual Governance Statement is the methodology applied to obtain the necessary assurance. This has included:
  - a self assessment assurance statement being completed every year by all Chief Officers giving assurance about the governance arrangements in their Departments.
  - consultation with other relevant officers throughout the County Council.

- 5.5 The assurance statements cover a range of Corporate Governance and performance issues and they refer to the existence, knowledge and application within departments of governance policies generally.
- In line with the Internal Audit Charter approved by the Audit Committee in June, 2017 and which is available on the County Council's website, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.
- 5.7 The Internal Audit Team's work forms the basis of a report to the relevant Chief Officer or Key Corporate Manager for any follow up work necessary, and feeds into this Annual Governance Statement.
- 5.8 Departmental Corporate Governance assurance statements were sent out to Departments in 2017.
- 6 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance
- 6.1 Work will continue to establish the new *Serving Hampshire* Strategic Plan, and to finalise the revised Corporate Performance Framework. New systems for the collection and analysis of customer experience are being developed to support the ambition to place greater emphasis on customer feedback and external sources of validation. This work includes the development of methods to engage employees further and capture staff feedback.
- The County Council understands that the working environment is becoming more challenging and that prolonged periods of excessive pressure have a negative impact on health. As a responsible employer it is important that the County Council takes action to promote the health of staff and mitigate any risks to their health and to the quality of the services that they provide to Hampshire citizens. Given this, the County Council is taking steps to ensure an organisational approach to workplace health and wellbeing and is developing a workplace programme of activity, including a staff survey, which will initially focus on promoting, supporting and championing resilience and mental wellbeing in the workplace.
- 6.3 The County Council will continue to take steps to embed the changes in data protection law resulting from the General Data Protection Regulations and associated UK legislation, including the review and adoption of new Policies, processes and procedures. Regular reports on progress will be presented to the Risk Management Board.
- Resources have been put in place to bring maintenance and monitoring of MySQL databases which historically have sat outside of the corporate support model, into alignment with the rest of the infrastructure. In addition, documentation to support the decision making process and procedures to update / patch the SAP environment will be put in place

- 6.5 Audits undertaken in the 17-18 year within the Adults' Health and Care Department have shown that recording on AIS has been at times incomplete or absent. In other instances the recording has not been completed consistently or within the expected timeframe. The Department is implementing a wide range of actions to seek to continuously improve including raising awareness of the issue and the responsibilities of staff and managers through staff communications and manager cascade; updating staff training; and refreshing the Social Care Practice Manual. The Department's Safeguarding, Quality and Governance Team are proactively following this up and auditing progress to ensure improved compliance with Departmental expectations. The Department is also undertaking a fundamental review of current processes as part of the Working Differently programme to improve staff recording, this includes streamlining the approach to and recording of case management notes to simplify and to focus on the key information. In the medium term, Adults' Health & Care are in the process of acquiring a new social care system which will further streamline the approach to recording and improve the ways that staff are able to do this, for instance enabling staff to update the system in real time in a mobile way out of the office.
- 6.6 The County Council will undertake a review of its Insurance Arrangements, including the levels and scope of insurances and an analysis of its risk appetite in respect to retained risk.
- 6.7 The County Council's Risk Management Board will undertake a review of the County Council's Risk Management Strategy including the operation of corporate and departmental risk registers.
- The County Council's Departments will review their contract management arrangements taking a more proactive risk based approach.
- 6.9 Internal Audit are currently compiling a Council wide 'assurance map' to ascertain all assurances received to mitigate controls in place to manage the organisation's key risks, The outcome of this work will be presented to the Audit Committee to inform the effective discharge of their duties.
- 6.10 Corporate Resilience is a priority for the County Council, and as such renewed engagement with all County Council Departments has begun in order to ensure compliance with the Corporate Resilience Strategy. The new Corporate Resilience Framework will be published and tested in 2018, and supported by new guidance for Departmental level plans and a new template for Service Recovery Plans. The new template will ensure that easier language and formatting is used to enable service level users to interact better with their plans. This will be supported by greater departmental level engagement and support by the Emergency Planning Team.
- 6.11 A thorough analysis of all DBS related processes and technology has been carried out, resulting in a detailed action plan that is being managed by a

dedicated project team. The Action Plan will ensure that all corrective action is undertaken in a controlled and robust manner and includes carrying out a complete review of all DBS data held on SAP as an initial activity. All data omissions or inaccuracies will be corrected in SAP by the end of August 2018. In addition to the immediate changes already put in place to ensure better compliance with policy and assurance that all checks are initiated and recorded appropriately, the project team will also review and, if necessary, implement further changes to business processes within the Recruitment Team to further tighten the process. An assessment of the current technologies being used to initiate and record both new employments and changes or moves to existing employments is underway with the objective of identifying and developing further system controls and validations within the end to end process. Additionally, improvements to how the organisation and managers can monitor DBS checking compliance and data recording will be addressed. A cross-cutting theme from the review will be to update and enhance guidance and clarify roles and responsibilities of both hiring managers and the Recruitment Team to support the steps required to successfully complete recruitment in line with safer recruitment requirements and expected accountabilities

7 There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored

In response to the Action Plan identified in the 2016-2017 Annual Governance Statement:-

- 7.1 Work has been undertaken to develop a new Strategic Plan, to replace the previous Corporate Strategy Shaping Hampshire. The new Serving Hampshire Strategic Plan covers the period 2017-2021. The County Council updates records of its sources of external validation every six months. Alongside the Serving Hampshire performance measures, this external validation source informs the County Council's judgement of overall performance. The new Strategic Plan will be underpinned by a revised Performance Management Framework, providing the local governance structure for performance management and reporting to Cabinet. As agreed by Cabinet in 2016, the revised Framework includes a more extensive use of the outcomes of external assessments as well as customer feedback in judging the organisation's overall, annual performance and subsequent areas for improvement. These combined sources of information sit alongside the County Council's existing programme of internal audit and the annual equality and corporate governance statements, including staff feedback. Regular reporting against an agreed set of performance indicators will continue to be undertaken aligned to the priorities identified in the revised Strategic Plan.
- 7.2 The Risk Management Board oversaw the implementation of the improvements agreed following the Information Commissioner's consensual audit. These actions were included in the County Council's preparations for

implementing the General Data Protection Regulation and associated UK legislation.

- 7.3 Following further investigation it was agreed by the Digital 2 Board to not proceed with automated dashboard reporting for corporate performance indicators as the cost in staff time outweighs the benefit. Existing processes meet current reporting requirements.
- 7.4 The proposed role of the Channel Design Authority has been incorporated into the Digital Board.
- 7.5 The Members Development Group were fully involved in reviewing and shaping the Member Induction Programme following the County Council all out Election in 2017 and have undertaken an important mentoring role within their political groups to the 30 new Members that were elected. All new Members attended a number of Workshops to provide information about their role, including decision making and overview and scrutiny. The Workshops also presented returning Members with a refresher opportunity.

#### **Declaration**

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are set out in this Statement.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signea:	Signea:
Chief Executive	Leader of the Council
Date:	Date:

# Glossary

#### **Academies**

Publicly funded independent schools, free from local authority and national government control. Freedoms held by academies include the ability to set their own pay and conditions for staff, freedoms around the delivery of the curriculum, and the ability to change the lengths of terms and school days. The income, expenditure and assets of academies within Hampshire do not form part of the Council's accounts.

#### **Accruals basis**

Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or paid.

#### **Actuary**

A person or firm who analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep it solvent.

#### **Admitted bodies**

These are employers who have been allowed into the Hampshire Pension Fund at the County Council's discretion.

#### **Alternative investments**

These are less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

#### **Amortisation**

The process of writing down the cost of an asset or liability through depreciation or repayment of principle over a suitable period of time.

#### Assets held for sale

Assets that the Council intends to sell within the next year and are actively marketed as such.

# Additional voluntary contributions (AVCs)

Additional voluntary contributions are paid by a contributor who decides to supplement his or her pension by paying extra contributions to the Scheme's AVC providers (Zurich and Equitable Life).

#### **Budget requirement**

Planned spending to be met from council tax, general Government grant and business rates.

## Capital adjustment account

An account that reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

# **Capital expenditure**

Expenditure on the acquisition or creation of a fixed asset or expenditure that adds to and does not merely maintain the value of an existing fixed asset.

# **Capital receipt**

Proceeds from the sale of capital assets (e.g. land, buildings and equipment).

# **Chartered Institute of Public Finance and Accountancy (CIPFA)**

The professional accountancy body for public services which recommends accounting practice for the preparation of local authority accounts.

# **Community asset**

An asset that the Council intends to hold forever, that has no determinable useful life, and that may have restrictions on its disposal. An example of a community asset is parkland.

## **Comprehensive Income and Expenditure Statement (CIES)**

Statement that shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

#### **Contingent asset**

A potential asset that is uncertain because it depends on the outcome of a future event.

#### **Contingent liability**

A potential liability that is uncertain because it depends on the outcome of a future event.

#### **Continuing services**

Services that the Council will continue to provide in the following financial year.

#### Council tax

A domestic property tax based on capital values with a personal element (a 25% discount for single-adult households). Each property is allocated to one of eight tax bands according to its capital value.

#### Creditor

An individual or body to which the Council owes money at the Balance Sheet date.

#### Current asset

An asset that is realisable or disposable within less than one year without disruption to services.

# **Current liability**

A liability that is due to be settled within one year.

#### **Current service costs**

The increase in the present value of pension liabilities expected to arise from employee service in the current period.

#### Custodian

A bank that looks after Pension Fund investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

#### **Debtor**

An individual or body that owes money to the Council at the Balance Sheet date.

# **Dedicated Schools Grant (DSG)**

A Government grant that can only be used to fund expenditure within the schools' budget.

#### **Deferred liability**

An amount owed by the Council that will be repaid over a significant period of time. For example, the Council holds a deferred liability to pay for assets constructed as part of the waste and street lighting PFI contracts, which will reduce over the life of the assets.

#### **Defined benefit pension scheme**

A pension scheme in which a pensioner's benefits are specified, usually relating to their length of service and either final salary or average earnings.

#### **Deposit**

Receipt held that is repayable in prescribed circumstances.

# **Depreciated historical cost**

The valuation of fixed assets at their original cost less depreciation charged to date.

#### **Depreciated replacement cost**

Relating to fixed assets, the current replacement costs adjusted for depreciation. This method of valuation is used when it is not practical to estimate the open market value for the existing use of a specialised property.

## **Depreciation**

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

# **Developers' contribution**

Developers may be required to provide contributions for building infrastructure. These may result from the Community Infrastructure Levy, section 106 and section 278 planning obligations, or planning conditions.

# Discretionary increase in pension payments

This increase arises when an employer agrees to the early retirement of an employee other than for reasons of ill health and agrees to pay pension benefits based on more years than he or she actually worked.

#### **Dividends**

Income to the Pension Fund on its holdings of UK and overseas shares.

#### Doubtful debt

A debt that the Council is unlikely to recover because something has happened since the debt was raised. An assessment of the reduction in recoverable debt is made both individually (for individually significant debts) and collectively. This reduction is charged to the Income and Expenditure Account.

#### **Earmarked reserve**

See Reserve.

#### **Equities**

Shares in UK and overseas companies.

#### **Exceptional item**

An item identified separately in the accounts because of its exceptional nature to make sure the presentation of the accounts is fair.

## Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

#### **Finance lease**

Under this type of lease, the risks and rewards of ownership of the leased goods transfer to the lessee.

#### **Financial instruments**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

#### **Fixed asset**

An asset that yields benefits to the local authority and the services it provides for a period of more than one year.

## **Foundation schools**

A category of school that receives its funding from the County Council, but are run by their own governing body, which employs the staff and sets the admissions criteria. Land and buildings are usually owned by the governing body or a charitable foundation

#### **General Fund**

The accumulated credit balance on the General Fund. It is the excess of income over expenditure in the Income and Expenditure Account after adjusting for movements to and from reserves and other non-cash items. This balance is needed as a cushion against unforeseen expenditure.

## Gross book value (GBV)

The original or revalued cost of an asset before the deduction of depreciation.

#### **Gross expenditure**

The total cost of providing the Council's services before deducting income from Government grants, or fees and charges for services.

#### Hedge fund

A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

# Heritage assets

Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture. The principal heritage assets owned by the Authority are its museum collections, archives collection and a small number of historic buildings and archaeological sites.

#### **Historical cost**

The amount originally paid for a fixed asset.

#### **Impairment loss**

A loss arising from an event that significantly reduces an asset's value. An example is physical damage or a fall in market value.

#### Infrastructure assets

Fixed assets that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

# Intangible assets

Assets that do not have physical substance but are identifiable and controlled by the Council and bring benefits to the Council for more than one year. Typical examples include software licences, internally developed software and websites developed to deliver services rather than information about services.

# Internal trading account

A service within the Council that operates on a trading basis with other parts of the Council.

# **International Financial Reporting Standards (IFRS)**

International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts, which came fully into effect from 1 April 2010.

#### **Inventories**

Goods that are acquired in advance of their use in the provision of services or their resale. At the year-end inventories are a current asset in the balance sheet and they will be charged to the CIES in the year they are consumed or sold.

# **Investment property**

Property (land or buildings) that are held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

#### Lessee

The party that leases an asset that is owned by another party.

#### Lessor

The owner of an asset which is leased to another party.

# **Local Government Pension Scheme (LGPS)**

The LGPS is a nationwide scheme for employees working in local government or working for other employers participating in the Scheme.

#### Long-term asset

An asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

# Long-term borrowing

A loan repayable in more than one year from the Balance Sheet date.

# Long-term debtor

An individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

## Minimum revenue provision (MRP)

The minimum amount (as specified in statute) which must be charged to the CIES each year and set aside as a provision for repaying external loans and meeting other credit liabilities.

#### **Net assets**

The amount by which assets exceed liabilities (same as net worth).

#### **Net assets statement**

A statement showing the net assets of the Pension Fund.

# Net book value (NBV)

The value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

#### **Net current liabilities**

The amount by which current liabilities exceed current assets.

#### **Net worth**

The amount by which assets exceed liabilities (same as net assets).

#### Non-ringfenced government grants

Amounts received from central Government towards funding the Council's activities that are not required to be spent on a particular service.

# **Operating lease**

Under this type of lease, the risks and rewards of ownership of the leased goods remain with the lessor.

# **Operational asset**

A fixed asset held and occupied, used or consumed by the Council in the direct delivery of services.

#### Past service cost

For a defined benefit pension scheme, the increase in the present value of the scheme's liabilities related to employee service prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

# Payment in advance

A payment for a service due to be received in a future financial year.

# **Pooled budget**

Partners contribute a set amount of money to form a separate budget. The purpose and scope of the budget is agreed at the outset and then used to pay for relevant services and activities.

# **Precept**

The demand made by the County Council on the collection funds maintained by the district councils for council taxpayers' contribution to its services.

# **Private equity**

Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e. not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

#### **Private finance initiative (PFI)**

Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

#### Projected unit method

One of the common methods used by actuaries to calculate a contribution rate to the LGPS, which is usually expressed as a percentage of the members' pensionable pay.

#### **Provisions**

An estimated figure within the accounts for liabilities that are known to exist but cannot be measured accurately.

#### **Public Works Loan Board (PWLB)**

A central government agency that provides loans to local authorities at a slightly higher rate than the Government is able to borrow. In most cases, the interest rates offered are lower than local authorities can achieve in the open market. The amounts and purposes for which PWLB loans can be obtained are tightly controlled by the Government.

## Receipt in advance

A receipt that is attributable to a future financial year.

#### Related party

An organisation, body or individual that has the potential to control or significantly influence the Council, or to be controlled or influenced by the Council.

#### Reserve

The Council's reserves fall into two categories. The 'unearmarked' reserve is the balance on the General Fund. An 'earmarked' reserve is an amount set aside in the Council's accounts for specific purposes.

#### **Revaluation reserve**

Records unrealised net gains from asset revaluations made after 1 April 2007.

# Revenue contributions to capital

The use of revenue funds to finance capital expenditure.

## Revenue expenditure

The operating costs incurred by the Council during the financial year in providing its day-to-day services. It is distinct from capital expenditure on projects that benefit the Council over a period of more than one financial year.

#### Revenue expenditure funded from capital under statute (REFCUS)

Expenditure that is classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the County Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

# Scheduled bodies

These are organisations that have a right to be in the LGPS.

#### **Service concession**

Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

#### SAPS

Self administered pension scheme

#### **SETS**

Stock Exchange Trading Service – a service provided by the Stock Exchange, enabling shares to be bought and sold electronically.

#### **Short-term investments**

An investment that is readily realisable within one year.

## **Specific grants**

Central Government grants to finance a particular service.

## Straight-line basis

Dividing a sum equally between several years.

## Surplus assets

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. These are assets that do not meet the criteria to be classified as either investment property or assets held for sale.

#### Transfer value

The value of an employee's pension rights, which can be transferred from one pension scheme to another.

#### **Transferred debt**

Debt serviced by bodies that are independent of the Council following the transfer of services formerly provided by the Council.

#### Trust fund

A fund set up under a trust deed in which the Council is a trustee.

#### **Useful life**

The period over which the Council will benefit from the use of a fixed asset.

# **Voluntary aided schools (VA schools)**

Mainly religious or 'faith' schools, although anyone can apply for a place. As with foundation schools, the governing body employs the staff and sets the admissions criteria

# **Voluntary controlled schools (VC schools)**

Similar to voluntary aided schools, but are run by the local authority. As with community schools, the local authority employs the school's staff and sets the admissions criteria

# Glossary

# Write-off

Elimination of an asset or liability over a defined period, usually by means of charging or crediting the CIES.

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Auditor's Reports on the Pension Fund				



# Public Document Pack Agenda Item 14

AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Mitchell Room, EII Podium, Winchester on Monday, 9th April, 2018

#### **PRESENT**

Chairman: p Councillor Mark Kemp-Gee

Vice-Chairman: a Councillor Tom Thacker

- a Councillor Christopher Carter p Councillor Alan Dowden p Councillor Andrew Gibson a Councillor Jonathan Glen
- p Councillor Andrew Joyp Councillor Peter Latham
- p Councillor Bruce Tennentp Councillor Derek Mellor

# **Co-opted members**

- a Dr Clifford Allen, Scheme Member Representative Pensioner Member
- p Valerie Arrowsmith, Scheme Member Representative Deferred Member
- p Councillor Mark Chaloner, Employer Representative Southampton City Council
- a Councillor Peter Giddings, Employer Representative District Council
- a David Robbins, Employer Representative Other Employer
- p Neil Wood, Scheme Member Representative Active Member Councillor Hugh Mason, Employer Representative Portsmouth City Council
- a Carolan Dobson, Independent Adviser

#### 67. APOLOGIES FOR ABSENCE

Councillors Carter, Glen, Giddings, Thacker, Mr Robbins, Dr Allen and Mrs Dobson sent their apologies.

# 68. **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.

# 69. **CONFIRMATION OF MINUTES (NON-EXEMPT)**

The minutes of the Pension Fund Panel and Board held on 15 December 2017 were confirmed.

#### 70. CHAIRMAN'S ANNOUNCEMENTS

The Chairman informed the committee that he had received a letter from Unison covering a number of topics, including representation within ACCESS, to which he had replied.

The Chairman announced that it was agreed at County Council in February 2018 that a special responsibility allowance for the co-opted members representing scheme members would be paid from April 2018.

# 71. REPORTING OF ACCESS JOINT COMMITTEE MINUTES (NON EXEMPT ITEMS) 13 DECEMBER 2017 AND 29 JANUARY 2018

The Panel and Board received the minutes of the ACCESS Joint Governance Committee held on 13 December 2017 and 29 January 2018.

#### 72. GOVERNANCE: INTERNAL AUDIT PROGRESS REPORT

The Panel and Board received and noted a report of the Director of Corporate Resources (item 6 in the Minute Book) setting out an overview of internal audit work completed in accordance with the approved audit plan.

Internal Audit's work to date had concluded reviews of pensions payroll and benefit calculations and the payment of pensions refunds, and that a substantial assurance can be placed on both processes based on a sound framework of internal control being in place and is operating effectively.

#### 73. **GOVERNANCE: INTERNAL AUDIT 2018/19 PLAN**

The Panel and Board received and noted a report of the Director of Corporate Resources (item 7 in the Minute Book) setting out an overview of internal audit work planned for 2018/19. The plan includes reviews of the process for starters and leavers, the governance of the Pension Fund and pooling.

# 74. GOVERNANCE: FUNDING STRATEGY STATEMENT AND EMPLOYER POLICY

The Panel and Board received a report from the Director of Corporate Resources (Item 8 in the Minute Book) on changes to the Pension Fund's Funding Strategy Statement and Employer Policy in relation to the treatment of wholly owned companies and funding targets for new admission bodies.

Employers were consulted on the changes to the strategy and the policy in January and February 2018. Two comments were received from employers

about the impact of the changes, but this did not result in any changes being made.

An additional change had been made to the Employer Policy following the receipt of legal advice, to clarify the way in which the Fund will seek to achieve a scheme employer guarantee.

#### **RESOLVED:**

That the changes to the Funding Strategy Statement and Employer Policy were approved.

#### 75. **GOVERNANCE: TRAINING PLAN 2018/19**

The Panel and Board considered a report of the Director of Corporate Resources (item 9 in the Minute Book) setting out the proposed training arrangements for members of the Pension Fund Panel and Board in 2018/19. 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.

Members commented about the increasing popularity of Smart Beta and Factor Driven investment strategies and asked this was considered for the training plan in 2018/19.

#### **RESOLVED:**

That the 2018/19 training programme was approved, noting that it may be adapted based on changing circumstances, and the remainder of the report was noted.

#### 76. **EXCLUSION OF THE PRESS AND PUBLIC**

#### RESOLVED:

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

#### 77. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 15 December 2017 were confirmed.

#### 78. REPORTING OF ACCESS JOINT COMMITTEE EXEMPT MINUTES FOR 2

# OCTOBER 2017, 13 DECEMBER 2017 AND 29 JANUARY 2018

The Panel and Board received the exempt minutes of the ACCESS Joint Governance Committee held on 2 October 2017, 13 December 2017 and 29 January 2018.

#### 79. **INVESTMENT: CUSTODIAN PERFORMANCE**

The Panel and Board considered the exempt report from the Director of Corporate Resources (Item 13 in the Minute Book) detailing the performance of the Pension Fund's custodian. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

#### 80. INVESTMENT - INVESTMENT UPDATE

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 14 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

#### 81. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 15 in the Minute Book) updating the Panel and Board about the progress of the Pension Fund's alternative investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

Chairman,		

# Agenda Item 16

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

Document is Restricted

