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Hampshire County Council

NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Thursday, 20th February, 2020 at 2.00 pm
Place	Chute Room, EII South, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

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

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

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

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 HELD ON 19 DECEMBER 2019 (Pages 5 - 8)

To confirm the minutes of the previous meeting.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

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

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

7. TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21 TO 2022/23 (Pages 15 - 40)

To receive a report of the Deputy Chief Executive and Director of Corporate Resources presenting the Treasury Management Strategy Statement for 2020/21 to 2022/23.

8. HAMPSHIRE COUNTY COUNCIL AUDIT PLANNING REPORT 2019/20 (Pages 41 - 80)

To receive the external audit planning report for Hampshire County Council for 2019/20.

9. HAMPSHIRE PENSION FUND AUDIT PLANNING REPORT 2019/20 (Pages 81 - 116)

To receive the external audit planning report for the Hampshire Pension Fund for 2019/20.

10. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 8 NOVEMBER 2019 (LESS EXEMPT) (Pages 117 - 124)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 8 Novmember 2019.

11. EXCLUSION OF THE PRESS AND PUBLIC

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

12. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 8 NOVEMBER 2019 (EXEMPT) (Pages 125 - 130)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 8 November 2019.

ABOUT THIS AGENDA:

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

ABOUT THIS MEETING:

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

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

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AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at the castle, Winchester on Thursday, 19th December, 2019

Chairman:
* Councillor Keith Evans

* Councillor Alexis McEvoy
* Councillor Dominic Hiscock
* Councillor Keith House
* Councillor Mark Kemp-Gee
* Councillor Derek Mellor
a Councillor Floss Mitchell
Councillor Rob Mocatta
a Councillor Tom Thacker

*Present

136. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Floss Mitchell and Tom Thacker.

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

138. **MINUTES OF PREVIOUS MEETING HELD ON 23 JULY 2019**

The minutes of the meeting held on 23 July 2019 were agreed as a correct record and signed by the Chairman.

139. **DEPUTATIONS**

There were no deputations at this meeting.

140. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements at this meeting.

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

The Committee considered the report of the Director of Transformation and Governance – Corporate Services giving an update on the data regarding the County Council's use of regulated investigatory powers between April and September 2019.

RESOLVED:

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

142. **INTERNAL AUDIT PROGRESS REPORT**

The Committee considered a report of the Deputy Chief Executive and the Director of Corporate Resources with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

RESOLVED:

That the Internal Audit Progress report for the period to November 2019 be noted.

143. **PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) - EXTERNAL ASSESSMENT**

The Committee considered a report of the Deputy Chief Executive and Director of Corporate Resources on the Public Sector Internal Audit Standards (PSIAS) – external assessment (Item 8 in the Minute Book).

During discussion, it was reported that the Director of Corporate Resources was currently the President of CIPFA, one of the organisations being considered for carrying out the independent external assessment. It was noted that the Director was not present at this meeting.

RESOLVED:

That the Committee noted arrangements for the pending external assessment of the Southern Internal Audit Partnership against the Public Sector Internal Audit Standards.

144. **TREASURY MANAGEMENT MONITORING REPORT 2019/20**

The Committee considered a report of the Deputy Chief Executive and Director of Corporate Resources on the Treasury Management mid-year monitoring report 2019/20 (Item 9 in the Minute Book).

Key points in the report were highlighted and Members were made aware that some of the detail around the uncertainty of Brexit would now change due to the General Election last week.

In response to Members' questions, the Committee were made aware that the increase in net investment of £3.7m (show in Table 2 of the report) reflects the combination of repayment of the Public Works Loan Board borrowing £1.5m and a small increase in investment balances of £2.2m.

RESOLVED:

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

That the mid-year review of treasury management activities be noted.

145. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 12 JULY, 26 JULY AND 27 SEPTEMBER 2019 (LESS EXEMPT MINUTES)**

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meetings held on 12 July, 26 July and 27 September 2019.

146. **RISK MANAGEMENT ARRANGEMENTS**

The Committee considered a report and exempt appendix from the Director of Transformation and Governance (Items 11 and 13 in the Minute Book).

During discussion, it was heard that:

- Departments were responsible for identifying, evaluating, and managing their own risks. Through a series of operational and strategic risk registers, held at departmental and corporate level, the County Council identifies, evaluates, mitigates and monitors its key risks.
- Oversight of the strategic risk registers is undertaken by the Risk Management Board, which actively monitors Department and Corporate Risk Registers.
- The table in the exempt appendix currently showed a high-level summary and the Committee felt that more detail was needed for future reports.

In considering the report, the Committee agreed that in future this report be brought back on an annual basis. It was also agreed that Officers would explore the options as to how the risk register could be reported to Cabinet in the future.

RESOLVED:

The Committee noted the contents of the report and exempt appendix and the risk management arrangements in place across the County Council.

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

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

148. **RISK MANAGEMENT ARRANGEMENT - EXEMPT APPENDIX**

See Minute 146 above.

149. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 12 JULY, 26 JULY AND 27 SEPTEMBER 2019 (EXEMPT MINUTES)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meetings held on 12 July, 26 July and 27 September 2019.

Chairman, 20 February 2020

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	20 February 2020
Title:	Information Compliance – Use of Regulated Investigatory Powers
Report From:	Director of Transformation and Governance

Contact name: Peter Andrews

Tel: 01962 847309 **Email:** peter.andrews@hants.gov.uk

Purpose of this Report

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

Recommendation

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

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

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Quarterly Reporting of Surveillance

Number of Authorisations by Quarter (1 April 2019 – 31 December 2019)

Direct Surveillance			
	Purpose of Surveillance		
2019-20 Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2	0	0	0
3	0	0	0
4			
Total -	**0**	**0**	**0**
Covert Human Intelligence Source (CHIS)			
	Purpose of Surveillance		
Quarter	C'feit Goods	Under Age Sales	Other
1	1	0	0
2	0	0	0
3	0	0	0
4			
Total -	**1**	**0**	**0**

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

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee:	Audit Committee
Date:	20 February 2020
Title:	Treasury Management Strategy Statement 2020/21 to 2022/23
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Rob Sarfas

Tel: 01962 847054 **Email:** rob.sarfas@hants.gov.uk

Purpose of the report

1. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 (the CIPFA Code) requires authorities to determine their Treasury Management Strategy Statement (TMSS) before the start of each financial year.

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

3. The purpose of this report is therefore to present the Treasury Management Strategy Statement for 2020/21 to 2022/23.

Recommendations

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

5. That the Treasury Management Strategy for 2020/21 (and the remainder of 2019/20) be approved.

6. That authority is delegated to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

7. That £2m is transferred to the Investment Risk Reserve as part of the Revised Budget for 2019/20.

Introduction

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

9. The County Council's Capital and Investment Strategy sets out the Council's broad approach to investment, including its capital programme, how this is funded, and investments held for service purposes or for commercial profit (as reported to Cabinet and County Council in the Revenue Budget and Precept 2020/21 report on 3 February 2020 and 13 February 2020 respectively).

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

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

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

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

External Context

14. The following paragraphs explain the economic and financial background against which the TMS is being set.

Economic Background

15. The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the County Council's TMS for 2020/21.

16. Gross Domestic Product (GDP) growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1%. Looking ahead, the Bank of England forecasts economic growth to pick up during 2020 as Brexit related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Quarter 4 2020, 1.8% in Quarter 4 2021 and 2.1% in Quarter 4 2022.

17. The headline rate of UK Consumer Price Inflation (CPI) remained the same in November 2019 at 1.5% year-on-year, although lower than highs of 2.1% in July and April 2019 and below the Bank of England target of 2%.

18. Labour market data continues to be positive with unemployment at 3.8%, the lowest level since 1975. The three month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019, providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.9% in October 2019 and only likely to have a moderate impact on household spending.

Credit Outlook

19. The recent Bank of England stress tests assessed all seven UK banking groups, with all seven passing the test. Major banks have steadily increased their capital for many years now, however the tests do not cover all banks and the Bank of England will seek to address issues with the tests in 2020, when Virgin Money / Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

20. Looking forward, the potential for adverse Brexit outcomes and / or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits continues to be recommended by the County Council's treasury advisors.

Interest Rate Forecast

21. The Council's treasury management adviser Arlingclose is forecasting that the Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the need for greater clarity on Brexit and continuing global economic slowdown.

22. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7 to 2 vote to hold rates) that the

Monetary Policy Committee (MPC) now believe this is less likely even in the event of a deal.

23. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

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

Balance Sheet Summary and Forecast

25. On 30 November 2019, the County Council held £308m of borrowing and £590m of investments. This is set out in further detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below:

Table 1: Balance Sheet Summary and Forecast

	31/03/19 Actual £M	31/03/20 Estimate £M	31/03/21 Forecast £M	31/03/22 Forecast £M	31/03/23 Forecast £M
Capital Financing Requirement	781	794	824	822	793
Less: Other Long-term Liabilities					
- Street Lighting PFI	(104)	(100)	(96)	(91)	(86)
- Waste Management Contract	(53)	(50)	(46)	(42)	(38)
Borrowing CFR	**624**	**644**	**682**	**689**	**669**
Less: External Borrowing					
- Public Works Loan Board	(238)	(228)	(218)	(208)	(200)
- Other Loans (incl. LOBOs)	(45)	(41)	(41)	(41)	(41)
- Other Short-term Borrowing	(31)	(31)	(31)	(31)	(31)
Internal Borrowing	**310**	**344**	**392**	**409**	**397**
Less: Reserves and Balances	(669)	(591)	(625)	(656)	(670)
Less: Allowance for Working Capital	(210)	(210)	(210)	(210)	(210)
Resources for Investment	**(879)**	**(801)**	**(835)**	**(866)**	**(880)**
(Treasury Investments) / New Borrowing	**(569)**	**(457)**	**(443)**	**(457)**	**(483)**

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

27. It is forecast that the County Council will continue to take advantage of internal borrowing, which will increase through until 2021/22, whilst paying off Public Works Loan Board (PWLB) debt as maturities arise.

28. The County Council intends to pay employer's Local Government Pension Scheme (LGPS) pension contributions in advance in April 2020 for the three years covering 2020/21 to 2022/23, with the initial reduction in cash balances offset by not then making monthly pension contributions. The lower contribution rate being charged as a result of paying in advance will generate a saving for the County Council across the three-year period that is greater than the investment income foregone.

29. Reserves and balances are initially due to reduce over the forecast period due to the anticipated funding of the Capital Programme, repayment of external debt, and use of the Budget Bridging Reserve (BBR) and are then forecast to increase as part of the Council's Reserves Strategy.

30. These factors result in the profile for investment balances shown in Table 1.

31. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the County Council expects to comply with this recommendation during 2020/21.

Borrowing Strategy

32. The County Council currently holds £308m of loans, a decrease of £1m on the previous year, as part of its strategy for funding previous years' Capital Programmes. The balance sheet forecast in Table 1 shows that the County Council does not expect to need to borrow in 2020/21. The County Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £780m.

Objectives

33. The County Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and

achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the County Council's long-term plans change is a secondary objective.

Strategy

34. Given the significant cuts to public expenditure and in particular to local government funding, the County Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, if the County Council does need to borrow, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

35. By internally borrowing, the County Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. If borrowing is required, the benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the County Council with this 'cost of carry' and breakeven analysis.

36. The County Council has previously raised the majority of its long-term borrowing from the PWLB, but the Government increased the margin on PWLB rates by 100 basis points (1%) in October 2019 making it a relatively expensive way to meet borrowing needs.

37. Alternative options should the County Council need to borrow any long-term amounts include banks, pension funds and local authorities as well as the potential to issue bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

38. The County Council may also arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

Sources

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

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

Other Sources of Debt Finance

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

- Leasing.
- Hire purchase.
- Private Finance Initiative (PFI).
- Sale and leaseback.

LOBOs

42. The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost.

43. All of these loans have options during 2020/21, and although the County Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The County Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to the current level of £20m.

Short-term and Variable Rate Loans

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

Debt Rescheduling

45. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The County Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

46. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the County Council's investment balance has ranged between £569m and £677m, although lower levels are expected in the forthcoming year, as shown in Table 1.

47. The reduction in investment balances predicted for 2020/21 is largely the result of the intention to pay employer's pension contributions in advance in April 2020. This will be for the three years covering 2020/21 to 2022/23 for staff in the LGPS and will enable the County Council to make savings on pension contributions that outweigh the lost investment income. This can be done without impacting liquidity with the benefit of also reducing counterparty risk.

Objectives

48. The CIPFA Code requires the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Negative Interest Rates

49. If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

50. Given the increasing risk and very low returns from short-term unsecured bank investments, the County Council aims to continue to be diversified in more secure and/or higher yielding asset classes during 2020/21. This is especially the case for the estimated £340m that is available for longer-term investment.

51. Approximately 77% of the County Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, registered providers, pooled property, equity and multi-asset funds, and secured bank bonds.

52. Of the cash subject to bail-in risk, 17% is held in short-term notice accounts which are maturing before the end of the financial year, 56% is held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in, and 27% is held in certificates of deposit which can be sold on the secondary market. This diversification is a continuation of the strategy adopted in 2015/16. Further detail is provided at Annex B.

Business Models

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

Investments Targeting Higher Returns

54. As set out in the Capital and Investment Strategy, the County Council agreed in 2019 to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. Just over £201m of this allocation has now been invested, as shown in Annex B, with the remaining balance earmarked.

55. Without this allocation the weighted average return of the Council's cash investments based on investments held at 30 November 2019 would have been 0.97%; whereas the allocation to higher yielding investments has a weighted average return of 4.67% bringing the overall average return for the portfolio to 2.23%, as shown in the table below:

Table 2: Weighted Average Returns

	Cash Balance 30/11/2019	Weighted Average Return
	£M	**%**
Short-term and Long-term Cash Investments	388.5	0.97
Investments Targeting Higher Yields	201.1	4.67
Total	**589.6**	**2.23**

56. The latest estimated value of investment income is circa £13.5m for 2019/20. However, as these balances and returns do not remain constant over the course of a year the figures are indicative, and the actual returns will form part of the outturn report at the conclusion of the financial year.

57. The County Council's overall investment balances will fall during 2020/21 as a result of the early payment of LGPS pension contributions explained above. The amount earmarked to investments targeting higher yields, however, reflects the County Council's long-term stable balances, and there is therefore no requirement to change this allocation of £235m.

58. Higher yields can be accessed through long-term cash investments (although this is currently less the case as yields have declined) and investments in other assets than cash, such as pooled property, equities and bonds. Non-cash pooled investments must be viewed as long-term investments in order that monies are not withdrawn in the event of a fall in capital values to avoid crystallising a capital loss.

59. When the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. It is recommended that a further £2.0m is added to this reserve in line with this strategy to further protect the County Council's funds. This is prudent given the additional amount to be targeted at higher yielding investments and will bring the total amount in the reserve to approaching £5.0m or just over 2.1% of the value of the investments.

60. At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since the County Council would avoid selling investments that realised a capital loss.

61. Going forward however, changes to IFRSs mean that capital gains and losses on investments need to be reflected in the revenue account on an

annual basis. There is currently a statutory override in place for local authorities that exempts them from complying with this requirement for the next four years. However, given the greater future risk in this area it is proposed to continue to contribute towards the Investment Risk Reserve to reach 2.5% of the total amount invested (in line with the recommendation of 2.5% for the general fund balance).

62. The County Council's investments in pooled property, equity and multi-asset funds are summarised in Table 3 below:

Table 3: Pooled Fund Investments Capital Value at 30 November 2019

Pooled Fund Investments	**Principal Invested £M**	**Market Value 30/11/19 £M**	**Capital Growth (per annum) %**
Pooled Property	77.0	77.7	0.22
Pooled Equity	52.0	52.7	0.43
Pooled Multi-asset	42.0	43.2	1.47
Total	**171.0**	**173.6**	**0.48**

63. In addition to the capital growth shown in Table 3, the County Council has achieved income returns averaging 4.67% per annum from these investments in pooled funds, resulting in a total return of 5.15% per annum.

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

Investment Limits

65. The maximum that will be lent to any one organisation (other than the UK Government) will be £50m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, and investments in pooled funds, as they would not count against a limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£50m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£50m per group
Any group of pooled funds under the same management	£50m per manager
Registered Providers and Registered Social Landlords	£50m in total
Money Market Funds	50% in total
Real Estate Investment Trusts	£50m in total

Approved Counterparties

66. The County Council may invest its surplus funds with any of the counterparty types in Table 5, subject to the cash limits (per counterparty) and the time limits shown:

Table 5: Approved Investment Counterparties and Limits

Credit Rating	**Banks**		**Government**	**Corporates**	**Registered Providers**	
	Unsecured	**Secured**			**Unsecured**	**Secured**
UK Govt	N/A	N/A	£ Unlimited 30 years	N/A	N/A	N/A
AAA	£25m 5 years	£50m 20 years	£50m 30 years	£25m 20 years	£25m 20 years	£25m 20 years
AA+	£25m 5 years	£50m 10 years	£50m 25 years	£25m 10 years	£25m 10 years	£25m 10 years
AA	£25m 4 years	£50m 5 years	£50m 15 years	£25m 5 years	£25m 10 years	£25m 10 years
AA-	£25m 3 years	£50m 4 years	£50m 10 years	£25m 4 years	£25m 10 years	£25m 10 years
A+	£25m 2 years	£50m 3 years	£25m 5 years	£25m 3 years	£25m 5 years	£25m 5 years
A	£25m 13 months	£50m 2 years	£25m 5 years	£25m 2 years	£25m 5 years	£25m 5 years
A-	£25m 6 months	£50m 13 months	£25m 5 years	£25m 13 months	£25m 5 years	£25m 5 years
None	£25m 6 months	N/A	£50m 25 years	N/A(*)	£25m 5 years	£25m 5 years
Pooled Funds & Real Estate Investment Trusts	£50m per fund					

*See paragraph 72

This table must be read in conjunction with the notes below

Credit Rating

67. Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured

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

Banks Secured

69. Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

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

Corporates

71. Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

72. The County Council will not invest in an un-rated corporation except where it owns a significant or controlling interest in the corporation, in which case a limit of £35m will for an investment of up to 20 years will apply.

Registered Providers Secured and Unsecured

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

Pooled Funds

74. Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and / or have a notice period will be used for longer investment periods.

75. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Depending on the type of pooled fund invested in, it may have to be classified as capital expenditure. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the County Council's investment objectives will be monitored regularly.

Real Estate Investment Trusts (REITs)

76. Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational Bank Accounts

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

Risk Assessment and Credit Ratings

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

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

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

Other Information on the Security of Investments

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

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

81. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the County Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the County Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Liquidity Management

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

Treasury Management Indicators

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

Interest Rate Exposures

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

Table 6: Interest Rate Risk Indicator

	30 November 2019	Impact of +/- 1% Interest Rate Change
Sums Subject to Variable Interest Rates		
Investment	£272.9m	+ / - £2.7m
Borrowing	(£23.3m)	+ / - £0.2m

Maturity Structure of Borrowing

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

Table 7: Refinancing Rate Risk Indicator

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

86. Time periods start on the first day of each financial year.

Principal Sums Invested for Periods Longer than a Year

87. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 8: Price Risk Indicator

	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£340m	£330m	£330m

Related Matters

88. The CIPFA Code requires the County Council to include the following in its TMSS.

Financial Derivatives

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

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

91. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit. The use of financial derivatives is not planned as part of the implementation of the TMSS and any changes to this would be reported to Members in the first instance.

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

Investment Advisers

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

Markets in Financial Instruments Directive

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

Annex A - Arlingclose Economic & Interest Rate Forecast January 2020

Underlying assumptions:

- The global economy has entered a period of weaker growth in response to political issues. The UK economy continues to experience slower growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations are low.

- Some improvement in global economic data and a more positive outlook for US / China trade negotiations has prompted worst case economic scenarios to be pared back.

- The new Conservative UK government will progress with achieving Brexit on 31 January 2020. The more stable political environment will prompt a partial return in business and household confidence in the short term, but the subsequent limited Brexit transitionary period, which the government is seeking to enforce, will create additional economic uncertainty.

- UK economic growth has stalled in Quarter 4 and inflation is running below the target of 1.5%. The inflationary consequences of the relatively tight labour market have yet to manifest, while slower global growth should reduce the prospect of externally driven pressure, although escalating geopolitical turmoil could continue to push up oil prices.

- The first few months of 2020 will indicate whether the economy benefits from restored confidence. The Government will undertake substantial fiscal easing in 2020/21, which should help support growth in the event of a downturn in private sector activity.

- The weak outlook for the UK economy and current low inflation have placed pressure on the Monetary Policy Committee (MPC) to loosen monetary policy. Two MPC members voted for an immediate cut in the last two MPC meetings of 2019. The evolution of the economic data and political moves over the next few months will inform policy, but upside risks to the Bank Rate are very limited.

- Central bank actions and geopolitical risks will produce significant volatility in financial markets, including bond markets.

Forecast:

- We have maintained our Bank Rate forecast at 0.75% for the foreseeable future. Substantial risks to this forecast remain, arising primarily from the Government's policy around Brexit and the transitionary period.

- Arlingclose judges that the risks are weighted to the downside.

- Gilt yields remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.

- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
3-month money market rate													
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
1yr money market rate													
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Downside risk	0.30	0.50	0.55	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
5yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45
Arlingclose Central Case	0.50	0.50	0.55	0.55	0.55	0.60	0.60	0.65	0.65	0.70	0.75	0.75	0.75
Downside risk	0.35	0.50	0.55	0.55	0.55	0.60	0.60	0.65	0.65	0.70	0.75	0.75	0.75
10yr gilt yield													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
Arlingclose Central Case	0.75	0.80	0.80	0.85	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	1.10
Downside risk	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50
20yr gilt yield													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
Arlingclose Central Case	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.40
Downside risk	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.50	0.50
50yr gilt yield													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
Arlingclose Central Case	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.40
Downside risk	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.50	0.50

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B - Existing Investment & Debt Portfolio Position at 30 November 2019

<u>**Investments**</u>	**Balance 30/11/2019 £M**	**Rate 30/11/2019 %**	**WAM (*) 30/11/2019 Years**
Short Term Investments			
- Banks and Building Societies:			
- Unsecured	41.0	0.86	0.16
- Secured	50.1	0.85	0.42
- Money Market Funds	43.2	0.73	0.00
- Local Authorities	146.0	0.92	0.38
- Registered Provider	0.0	0.00	0.00
- Cash Plus Funds	10.0	1.45	N/A
	290.3	**0.89**	**0.30**
Long Term Investments			
- Banks and Building Societies:			
- Secured	43.2	0.95	2.14
- Local Authorities	55.0	1.40	1.85
	98.2	**1.20**	**1.98**
Long Term Investments – high yielding strategy			
- Local Authorities			
- Fixed deposits	20.0	3.96	14.30
- Fixed bonds	10.0	3.78	14.11
- Pooled Funds			
- Pooled property**	77.0	4.14	N/A
- Pooled equity**	52.0	5.90	N/A
- Pooled multi-asset**	42.0	4.69	N/A
- Other	0.1	5.68	0.41
	201.1	**4.67**	**14.24**
Total Investments	**589.6**	**2.23**	**1.69**

* WAM - Weighted Average Maturity

** The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 30 November 2019.

	£M	%
External Borrowing		
PWLB Fixed Rate	(232.1)	(4.71)
Other Loans (including LOBO Loans)	(44.8)	(4.08)
Other Short-term Borrowing	(31.0)	N/A)
Total External Borrowing	**(307.7)**	**(4.61)**
Other Long-Term Liabilities:		
Street Lighting PFI	(99.9)	
Waste Management Contract	(49.5)	
Total Other Long-Term Liabilities	**(149.4)**	
Total Gross External Debt	**(457.1)**	
Investments	**589.6**	**2.23**
Net (Debt) / Investments	**141.5**	

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
<u>Title</u> Treasury Management Strategy Statement 2019/20 to 2021/22 Revenue Budget and Precept 2020/21	<u>Date</u> 21/2/2019 3/2/2020
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents
The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

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

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	20 February 2020
Title:	Hampshire County Council Audit Planning Report 2019/20
Report From:	Ernst and Young (external auditors)

Contact name: Sarah Croft

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

Purpose of this Report

1. The purpose of this report is to provide the Audit Committee with a basis to review the proposed audit approach and scope for the 2019/20 audit.

Recommendation

2. That the Audit Committee receives and notes the Hampshire County Council Audit Planning Report for 2019/20 as attached at Appendix 1.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

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

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

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

2. **Equalities Impact Assessment:**

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

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Hampshire County Council

Audit planning report

Year ended 31 March 2020

January 2020

EY
Building a better working world

28 January 2020

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

Dear Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks (subject to finalisation).

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

We welcome the opportunity to discuss this report with you on 20th February 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter.

Kevin Suter

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus			
Risk / area of focus	**Risk identified**	**Change from PY**	**Details**
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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. Our judgement is that this risk at this Council relates to the improper capitalisation of revenue expenditure.
Valuation of Land and Buildings and Investment Properties	Inherent risk	No change in risk or focus.	Property, Plant and Equipment Land and Buildings (L&B) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Overview of our 2019/20 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Pension Accounting	Inherent Risk	No change in risk of focus	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 2019 this totalled £1,327 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. We are required to undertake procedures on the use of experts and the assumptions underlying fair value estimates.
New Accounting Standard	Inherent risk	New risk identified this year	IFRS 16 (leases) applies from 1 April 2020. The authority needs to put in place arrangements to implement the new standard for the 2020/21 financial year, and to make necessary disclosures for forthcoming changes in accounting standards in its 2019/20 statement of accounts.

Materiality

Planning materiality
£39.9m

Planning materiality has been set at £39,990,000 which represents 1.8% of 2018/19 gross expenditure

Performance materiality
£29.9m

Performance materiality has been set at £29,993,000 which represents 75% of Planning Materiality

Audit differences
£1.9m

We will report all uncorrected misstatements relating to the income statement and balance sheet that have an effect on income and misstatements in the OCI over £1,999,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- our audit opinion on whether the financial statements of Hampshire County Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- our conclusion on the Council’s arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council’s Whole of Government Accounts return.
Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.
When planning the audit we take into account several key inputs:

- strategic, operational and financial risks relevant to the financial statements;
- developments in financial reporting and auditing standards;
- the quality of systems and processes;
- changes in the business and regulatory environment; and
- management’s views on all of the above.

By considering these inputs, our audit focuses on the areas that matter and our feedback is more likely to be relevant to the Council.
We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in July 2020.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on “the auditors assessment of risk and the work needed to meet their professional responsibilities”. PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9, 15 and 16 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of Hampshire County Council’s audit, we will discuss these with management as to the impact on the scale fee.

Audit team changes

Key changes to our team.

Kevin Suter, Associate Partner

- Kevin takes over from Maria Grindley as the Engagement Lead.
- Kevin has significant public sector audit experience over 20 years, with a portfolio of Local Authorities, Police and Crime Commissioner & Constabularies, Local Government Pension Fund and National Park Authority audits.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error

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Financial statement impact

Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.

What is the risk?

As identified in ISA 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 would otherwise appear to be operating effectively.

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

What will we do?

- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider of the effectiveness of management's controls designed to address the risk of fraud.

Perform mandatory procedures regardless of specifically identified fraud risks, including:

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

We will utilise our data analytics capabilities to assist with our work.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Inappropriate capitalisation of revenue expenditure

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Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income accounts. The relevant accounts we associate the revenue and expenditure recognition risk to had the following balances in the 2018-19 financial statements:

Cost of services expenditure: £2,165 million

PPE additions: £147.6million

What is the risk?

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

The risk in local government is in areas where management make judgements that impact whether material items of expenditure are financed from capital or revenue resources. This would be effected by management override of journal controls.

As such we associate this risk with capital additions.

What will we do?

For a sample of recorded capital additions we will examine invoices, capital expenditure authorisations and other data that support the appropriateness of these additions.

We will ensure that the items are capital in nature, and do not include revenue items.

We will utilise our data analytics capabilities to assist with our work through identifying high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

Other areas of audit focus

We have identified other areas of the audit, that have not been 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?	What will we do?
Valuation of Land & Buildings and Investment Property Land and Buildings is the most significant balance in the Council's Balance Sheet. The valuation of Land and Buildings (L&B) and Investment Property (IP) is complex and subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.	We will: • Consider the competence, capability and objectivity of the Council's internal valuer; • Consider the scope of the valuer's work; • Ensure L&B assets have been revalued within a 5 year rolling programme as required by the Code; • Ensure IP has been annually revalued as required by the Code; • Consider if there are any specific changes to assets that should have been communicated to the valuer; • Sample test key inputs used by the valuer when producing valuations; • Consider the results of the valuer's work; • Challenge the assumptions used by the Council's valuer by reference to external evidence and our EY valuation specialists (where necessary); • Test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements; • Test a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct; and • Review assets that are not subject to valuation in 2019/20 to confirm the remaining asset base is not materially misstated.

Other areas of audit focus

We have identified other areas of the audit, that have not been 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?	What will we do?
<u>Pension Liability Valuation</u> 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 2019 this totalled £1,327 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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. In the prior year the 'McCloud' judgement impacted the estimate and resulted in an amendment of the net pension liability. We anticipate this will again be a key assumption in estimating the pension liability. We would expect the Authority's actuary to be basing their assumptions taking into account the Authority's specific membership profile and how it has been impacted by the judgement. We also note that there may be further developments in this area, potentially again coming after the balance sheet date.	We will: • Liaise with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council's scheme members; • Assess the work of the LGPS Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; • Review Hampshire Pension Fund's financial statements and compare the year end asset value with the estimate used by the actuary when producing the Council's IAS 19 report; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<u>IFRS 16 Leases</u> This new accounting standard is applicable for local authority accounts from the 2020/21 financial year and will change: • How operating leases are recognised (as lessee); and • The disclosure requirements for operating leases (as lessee). The 2020/21 Cipfa Code of practice on local authority accounting has not yet been issued. However, the Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new accounting standard, but one which has not yet been implemented. As at 31 March 2019, the council had £39m of future minimum operating lease payments	We will: • Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2019/20; and • Review additional disclosure requirements for 2019/20.

03 Value for Money Risks

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 2019-20 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.

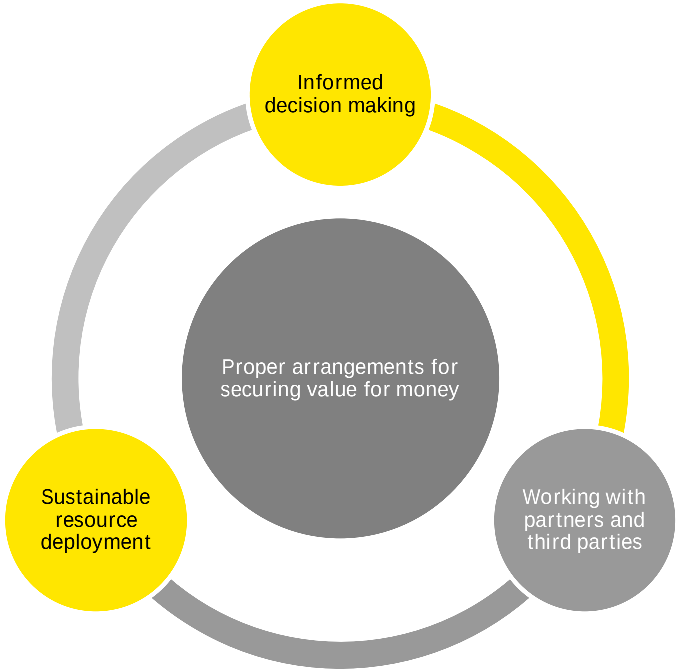
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks which we view as relevant to our value for money conclusion. We will continue to update our risk assessment throughout the course of our audit.

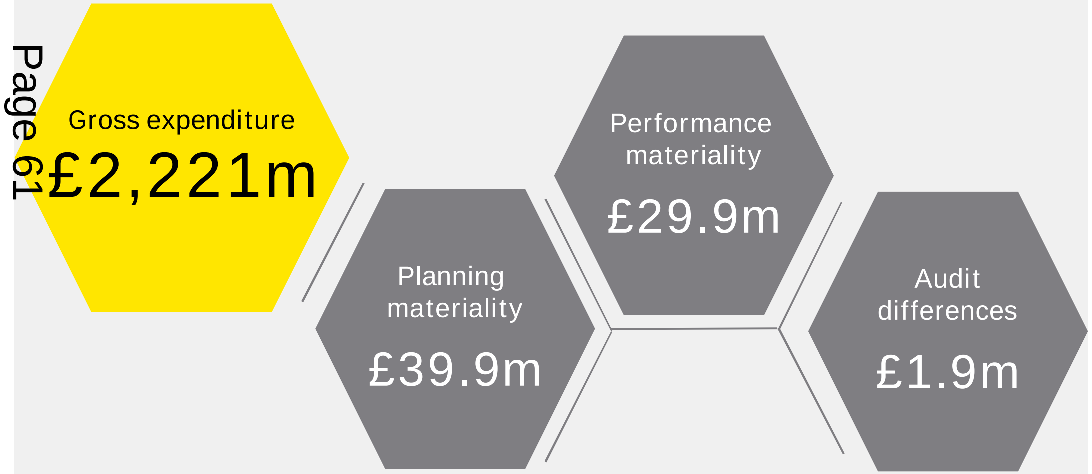


04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £ 39,990,726. This represents 1.8% of the Council's prior year gross expenditure. It will be reassessed throughout the audit process and once the draft 2019/20 statements have been prepared. This is based on the rationale that's public sector organisation do not have a focus on earnings profits. We consider industry factors, and using gross revenue expenditure is the industry norm.



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We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £29,993,000 which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £1k for officers and senior employees' remuneration and audit fees disclosures. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to rely on controls, both manual and IT:

- Accounts receivable;
- Accounts payable;
- Payroll;
- Cash and Bank;
- SWIFT social care; and
- CONFIRM highway maintenance.

In 2019/20, Hampshire County Council Integrated business centre (IBC) have commissioned an ISAE 3402 type 2 report from EY's Financial Audit IT (FAIT) team. The ISAE 3402 report provides the users of the IBC with assurance over the suitability of the design and existence of controls and on the operating effectiveness of these controls during the financial year.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Audit team structure:

Kevin Suter*
Associate Partner

Sarah Croft
Manager

Jack Dunkley
Assistant Manager

EY Real Estates (as applicable)

EY Actuaries

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2019/20 audit.

We will continue to keep our audit approach under review to streamline it where possible.

* Key Audit Partner

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Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

Area	Specialists
Pension valuation	Management Specialist – AoN Hewitt PwC (Consulting Actuary to the NAO) EY Specialist - EY actuaries
PFI valuation	Management Specialist - Capita
PPE valuation	Management Specialist - Management's in-house valuation experts EY Specialist - EY real estates (if necessary)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	November		
Walkthrough of key systems and processes	November - December		
Development of audit plan	January		Audit Planning Report
Testing of routine processes and controls	February	Audit Committee	
Interim audit testing	February - March		
Year end audit Audit Completion procedures	June/July	Audit Committee	Audit Results Report Audit opinions and completion certificates
Year end audit Audit Completion procedures	July / August	Audit Committee	Annual Audit Letter

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08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. [

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the Financial Reporting Council's Ethical Standard or the National Audit Office’s Auditor Guidance Note 01 and you have no policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 63%. All fees are set out in Appendix A.

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

From 2019/20 (and future years), the Council would like to obtain independent third party assurances over the financial reporting controls in place at the IBC. This is in respect of services provided to the IBC’s clients. The Council would like to obtain an independent Service Organisation Controls (SOC) 1 Type 2 assurance report covering the relevant financial year. This will need to be performed under the International Standard for Assurance Engagements (ISAE) No. 3402 issued by the International Auditing and Assurance Standards Board (IAASB). As this will be a Type 2 engagement, the review will focus on the design and operating effectiveness of controls for the relevant financial year.

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

We have adopted the following safeguards as a result. The work will be led and delivered by a separate Service Organisation Controls (SOC) reporting team. Members of the existing audit team at Hampshire County Council will not work on this project.

Relationships, services and related threats and safeguards

Self interest threats (continued)

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

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

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

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

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

Other communications

EY Transparency Report 2019

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
		£	£
Total Fee	89,720	89,720	91,570*
Total audit	89,720	89,720	91,570*
Other non-audit services**	56,500	N/A	43,000
Total other non-audit services	56,500	N/A	43,000
Total fees	146,220		132,720

All fees exclude VAT

- For 19/20 the scale fee may be impacted by a range of factors (see page 6), which we will update the committee on, as the audit progresses.
- * the variation to 18/19 scale fee is still to be approved by PSAA

The agreed fee presented is based on the following assumptions:

► Officers meeting the agreed timetable of deliverables;

► The production of materially accurate draft accounts;

► Our accounts opinion and value for money conclusion being unqualified;

► Appropriate quality of documentation is provided by the Council; and

► The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee .

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report
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
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • 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	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Assurance letter
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	20 February 2020
Title:	Hampshire Pension Fund Audit Planning Report 2019/20
Report From:	Ernst and Young (external auditors)

Contact name: Sarah Croft

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

Purpose of this Report

1. The purpose of this report is to provide the Audit Committee with a basis to review the proposed audit approach and scope for the 2019/20 audit.

Recommendation

2. That the Audit Committee receives and notes the Hampshire Pension Fund Audit Planning Report for 2019/20 as attached at Appendix 1.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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

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Hampshire Pension Fund

Audit planning report

Year ended 31 March 2020

January 2020

Building a better working world

28 January 2020

Audit Committee
Hampshire Pension Fund
The Castle
Winchester
Hampshire
SO23 8UJ

Dear Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Hampshire Pension Fund, and outlines our planned audit strategy in response to those risks (subject to finalisation).

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

We welcome the opportunity to discuss this report with you on 20th February 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter.

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2019)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Hampshire Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hampshire Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hampshire Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2019/20 audit strategy

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk of focus	As identified in ISA 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 would otherwise appear to be operating effectively
Valuation of complex Investments (Level 3 Fair Value hierarchy)	Significant risk	No change in risk of focus	Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data. Significant judgements are made by the Investment Managers or administrators to value these investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.
Valuation of non-quoted pooled & property Investments (Level 2 Fair Value hierarchy)	Inherent risk	No change in risk of focus	The Pension Fund's investment valuations are classified into three levels, according to the quality and reliability of information used to determine fair value. As at 31 March 2019, Hampshire Pension Fund held a significant balance of level 2 investments. Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. The Pension Fund held £1,195 million of these investments at 31st March 2019 of which £487 million relates to property investments. We consider the valuation of property investments to be of a higher degree of inherent risk because of the extent of estimation uncertainty. Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement.

Overview of our 2019/20 audit strategy

Materiality

Planning materiality
£71.8m

Materiality has been set at £71,818,000, which represents 1.0% of the 2018/19 net assets.

Performance materiality
£53.9m

Performance materiality has been set at £53,864,000, which represents 75% of materiality.

Audit differences
£3.6m

We will report all uncorrected misstatements relating to the Net Assets Statement and Pension Fund Account greater than £3,591,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Hampshire Pension Fund give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in July 2020.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of complex investment assets, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9, 15 and 16 in recent years. Therefore to the extent any of these are relevant in the context of Hampshire Pension Fund audit, we will discuss these with management as to the impact on the scale fee.

Audit team changes

Key changes to our team.

Kevin Suter, Associate Partner

- Kevin takes over from Maria Grindley as the Engagement Lead.
- Kevin has significant public sector audit experience over 20 years, with a portfolio of Local Authorities, Police and Crime Commissioner & Constabularies, Local Government Pension Fund and National Park Authority audits.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

Financial statement impact

Misstatements that occur in relation to the risk of fraud due to management override could affect a number of areas of the financial statements.

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) 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 will we do?

We will undertake our standard procedures to address fraud risk, which include:

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

Performing mandatory procedures regardless of specifically identified fraud risks, including:

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

We will utilise our data analytics capabilities to assist with our work.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of complex Investments (Level 3 Fair Value hierarchy)

Financial statement impact

As at 31 March 2019, Hampshire Pension Fund held a significant balance of level 3 investments. These included £465 million private equity investments and £120 million hedge funds.

These investments are more complex to value.

In the 2018/19 financial statements, the Pension Fund disclosed that the accuracy of these valuation techniques as between within 5% and 10% or within £52.5 million of the estimated value.

What is the risk?

Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data.

Significant judgements are made by the Investment Managers or administrators to value these investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

What will we do?

Our approach will focus on:

- Reviewing the latest available audited accounts for the relevant funds and ensuring there are no matters arising that highlight weaknesses in the fund's valuation;
- Where the latest audited accounts are not as at 31st March 2020, performing analytical procedures and checking the valuation output for reasonableness against our own expectations; and
- Testing accounting entries have been correctly processed in the financial statements.

If necessary, our internal valuation specialists will support our work in this area.

Other areas of audit focus

We have identified other areas of the audit, that have not been 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?	What will we do?
Valuation of non-quoted pooled & property Investments We consider the valuation of non-quoted pooled investments to be of a higher degree of inherent risk because of the extent of estimation uncertainty. For property valuations, management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement.	We will: Non-quoted investment ► Reconcile the valuation of the non-quoted assets provided by the custodian and fund manager ► Verify the fund manager unit valuation to recent unit sales using externally available market information ► Perform an analytical review of the pooled funds movement in year against the specific market movements the fund is invested in Property investment ► Consider the work performed by the Fund's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ► Review the key assumptions used by the valuer; and ► Test accounting entries have been correctly processed in the financial statements.

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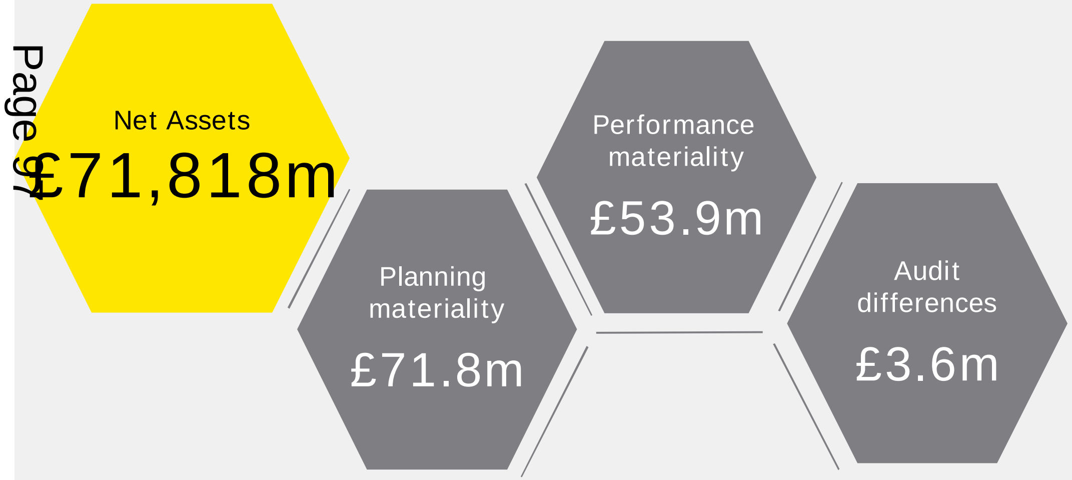
03 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £71.8 million. This represents 1.0% of the Pension Fund's prior year net assets. It will be reassessed throughout the audit process. For Hampshire Pension Fund, the Net Asset Statement, which discloses the value of the investments held by the scheme, is the most appropriate measure rather than the Fund Account. Assets are key, as they cover the liabilities of the fund and generate significant income. Use of net assets as the measure of materiality is EY standard practice for pension funds.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £53.9 million which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and the net assets statement that have an effect on returns or that relate to expenditure.

Other uncorrected misstatements, such as reclassifications and misstatements in statements or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

04 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements:

1. Financial statement audit

Our objective is:

- To form an opinion on the financial statements under International Standards on Auditing (UK).
- To form an opinion on the consistency of the pension fund financial statements within the pension fund annual report with the published financial statements of Hampshire County Council.

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

05 Audit team

Audit team

Audit team structure:

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Pension Specialist

EY Actuaries

Kevin Suter*
Associate Partner

Sarah Croft
Manager

Jack Dunkley
Assistant Manager

Kelly Peachey
Senior

Working together with the Pension Fund

We are working together with officers to identify continuing improvements in communication and processes for the 2019-20 audit.

We will continue to keep our audit approach under review to streamline it where possible.

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pensions Valuation	Management Specialist - Aon Hewitt PwC (Consulting Actuary to the NAO) EY Specialist - EY Actuaries
Investment valuations (Level 2 and Level 3)	Management Specialist – Colliers (Property valuations) EY Specialist - EY valuation specialist (if necessary)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

06 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	November		
Walkthrough of key systems and processes	November - December		
Interim substantive procedures	February	Audit Committee	Audit Planning Report
Year end audit Audit Completion procedures	June / July	Audit Committee	Audit Results Report Audit opinions and completion certificates
Year end audit Audit Completion procedures	July / August	Audit Committee	Annual Audit Letter

07 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Pension Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. At the time of writing, there are no non-audit fees associated with Hampshire Pension Fund. No additional safeguards are required.

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

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

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

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

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019

08 Appendices

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police bodies.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the NAO code.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2017/18
	£	£	£
Total Fee – Code work (1)	TBC	24,442	24,442
Total audit	TBC	24,442	24,422

All fees exclude VAT

*For 19/20 the scale fee may be impacted by a range of factors (see page 7), which we will update the committee on, as the audit progresses

The agreed fee presented is based on the following assumptions:

► Officers meet the agreed timetable of deliverables;

► The production of materially accurate draft accounts;

► Our accounts opinion is unqualified;

► Appropriate quality of documentation is provided by the Pension Fund; and

► The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Pension Fund in advance.

Fees for the auditor’s consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

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

Appendix B

Required communications with the Audit Committee (continued)

		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
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report

Required communications with the Audit Committee (continued)

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Required communications	What is reported?	Our Reporting to you When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • 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	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Assurance Letter
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit	Audit planning report Audit results report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	20 February 2020
Title:	Minutes of the Hampshire Pension Fund Panel and Board – 8 November 2019
Report From:	Director of Transformation and Governance

Contact name: Caroline Roser

Tel: 01962 846693 **Email:** caroline.roser@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the minutes from the meeting of the Hampshire Pension Fund Panel and Board which took place on 8 November 2019.

Recommendation

2. That the Audit Committee receives and notes the minutes as attached to this report.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

This report requests that the Audit Committee receive and note the minutes of the Hampshire Pension Fund Panel and therefore the recommended action will not impact on groups with protected characteristics in any way.

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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Mitchell Room, EII Podium, Winchester on Friday, 8th November, 2019

PRESENT

Chairman:
* Councillor Mark Kemp-Gee

Vice-Chairman:
Councillor Tom Thacker

Elected members of the Administering Authority (Councillors):

C. Carter	* A. Joy
A. Dowden	* P. Latham
A. Gibson	* B. Tennent
* J. Glen	* D. Mellor

Employer Representatives (Co-opted members):
* Councillor P. Taylor (District Councils - Rushmoor Borough Council)
* Councillor S. Barnes-Andrews (Southampton City Council)
* Mr D. Robbins (Churchers College)
Councillor C. Corkery (Portsmouth City Council - substitute employer representative)

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

Independent Adviser:
* C. Dobson

*present

BROADCASTING ANNOUNCEMENT

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

210. APOLOGIES FOR ABSENCE

Councillors Carter, Thacker, Dowden, Gibson, and Corkery and Mr Wood sent their apologies.

211. **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.

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

The minutes of the Pension Fund Panel and Board held on 27 September 2019 were confirmed with the correction that Councillor Mellor was present at the meeting and Ms Manchester was absent.

213. **DEPUTATIONS**

There were no deputations.

214. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Councillor Paul Taylor of Rushmoor Borough Council to his first meeting and announced that Councillor Cal Corkery of Portsmouth City Council has also been appointed to the committee.

The Chairman informed the committee that following its agreement at the last meeting the Pension Fund had officially made its commitment to the UN Principles of Responsible Investment and UK Stewardship Code, both of which will be reported on the Pension Fund's website.

The Chairman thanked the committee members that attended the first ACCESS investor day on 16 October 2019, which was well attended and received.

The Chairman reminded the committee that there is a Panel and Board internal training session on 12 November and a treasury management briefing for members from the advisors Arlingclose on 22 November.

The Chairman invited the members to report back on any recent events they had attended, and Cllr Tennent informed the committee he attended Baillie Gifford's recent conference, which was very positive. Dr Allen commented that he had attended a recent SPS conference which was useful but observed a lack of diversity amongst the investment managers presenting. Ms Manchester reported that having attended the second day of the 'LGPS Fundamentals' course, which was very helpful, she recommended it to any other new members of the committee.

215. **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.

216. **CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING**

The exempt minutes of the Pension Fund Panel and Board held on 27 September 2019 were confirmed.

217. **INVESTMENT - INVESTMENT UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 8 in the Minute Book) updating the Panel and Board on the Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

Chairman,

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

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