

NOTICE OF MEETING

Meeting	Audit Committee
Date and Time	Wednesday, 29th September, 2021 at 11.00 am
Place	Wellington Room, EII South, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

Carolyn Williamson FCPFA
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION

This meeting may be recorded and broadcast live on the County Council's website. 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 Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. MINUTES OF PREVIOUS MEETING HELD ON 26 JULY 2021 (Pages 5 - 10)

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 11 - 16)

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

7. EXTERNAL AUDIT REPORTS 2020/21 - HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND (Pages 17 - 110)

To receive the external auditors report for both Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2021.

8. STATEMENT OF ACCOUNTS 2020/21 (Pages 111 - 130)

To consider a report of the Director of Corporate Operations presenting the Annual Statement of Accounts.

9. TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 2021/22 (Pages 131 - 150)

To consider a report of the Director of Corporate Operations providing an update on the performance of the treasury management function.

10. ANNUAL GOVERNANCE STATEMENT (Pages 151 - 172)

To consider a report of the Head of Law and Governance and Director of Corporate Operations presenting the Annual Governance Statement.

11. APPOINTMENT OF COUNTY RETURNING OFFICER (Pages 173 - 176)

To consider a report of the Chief Executive recommending the appointment of the County Council Returning Officer.

12. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 26 MARCH 2021 (LESS EXEMPT) (Pages 177 - 186)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 26 March 2021.

13. 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.

14. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 26 MARCH 2021 (EXEMPT) (Pages 187 - 196)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 26 March 2021.

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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Public Document Pack Agenda Item 3

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at the castle, Winchester on Monday, 26th July, 2021

Chairman:

* Councillor Alexis McEvoy

* Councillor Rod Cooper
* Councillor Tim Davies
* Councillor Dominic Hiscock
* Councillor Keith House
* Councillor Mark Kemp-Gee
* Councillor Derek Mellor

* Councillor Rob Mocatta
* Councillor Stephen Philpott
Councillor Juliet Henderson
Councillor Tom Thacker
Councillor Adrian Collett
Councillor David Harrison

*Present

1. **APOLOGIES FOR ABSENCE**

All Members were noted to be present at the meeting.

2. **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.

No declarations were made at this point in the meeting.

3. **MINUTES OF PREVIOUS MEETING HELD ON 4 MARCH 2021**

Further to item 211 of the minutes, it was noted that the final audit fees for the year ending 31 March 2020 were still awaiting Public Sector Audit Appointments (PSAA) approval. Cllr House declared a non-pecuniary interest, as a Member of the Board of PSAA.

The minutes of the meeting held on 4 March 2021 were agreed as a correct record and signed by the Chairman.

4. **DEPUTATIONS**

No questions or deputations were received by the Committee on this occasion.

5. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

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

Members received a report of the Director of Culture, Communities and Business Services and Chief Executive – Corporate Services, outlining the County Council's use of its investigatory powers during the previous financial year.

The report identified that powers had only been used in respect of communications data during the previous 12 months. Members heard that examples of how such powers were used included obtaining the details of the owner of a mobile phone account or website, to support trading standards in tackling online fraud or the sale of counterfeit or non-genuine goods. The report further highlighted that since 2011 surveillance activities have resulted custodial sentences totalling 113 years and 2 months being handed down, and orders to recover of £550,000 of criminal proceeds.

RESOLVED:

- That the Audit Committee notes the contents of the report and that the County Council's surveillance powers continue to be exercised appropriately and proportionately.
- That the Audit Committee provides the Executive Member for Policy and Resources with assurance that the County Council is operating its powers in a lawful and proportionate manner. Furthermore, the Audit Committee assures the Executive Member of the continued use of surveillance powers by the County Council.

7. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 12 FEBRUARY 2021 (LESS EXEMPT)**

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 12 February 2021.

8. **EXTERNAL AUDIT PLANNING REPORT 2020/21**

The Committee received the annual audit planning report for 2020/21 from the external auditors. Members heard that:

- The external auditors, Ernst and Young, were expecting to present the final reports ahead of the deadline of 30 September.
- There had been limited change to the Audit Strategy, compared to the previous year.
- Work in respect of the value for money assessment for Hampshire County Council was subject to change. The auditors highlighted that they were required to report against three criteria, instead of the previous single criteria, however their risk assessment had not identified any

weakness in those areas. Members further heard that there was no requirement for the auditors to undertake a separate value for money assessment for the Hampshire Pension Fund.

RESOLVED:

That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund Audit Planning Reports for 2020/21.

9. INTERNAL AUDIT PLANNING REPORT AND OPINION 2020/21

Members received a report from the Director of Corporate Relations presenting the Internal Audit Annual Report and Opinion for 2020/21.

Members heard that:

- During the course of the year internal audit had adapted the plan to address some of the key risks and emerging themes which had resulted from the Covid-19 pandemic. Whilst it had been a challenging year, the internal audit function had adapted well to undertaking audit activity through virtual means, with the use of online meeting technology enabling the County Council to maintain a robust approach to assurance work.
- The overall opinion for the year had provided a reasonable assurance on the adequacy and effectiveness of Hampshire County Council's internal control environment.
- Key observations were made within the report, noting a few areas which had provided challenge to the organisations risk environment. Action plans had been developed to address any issues highlighted, and Members were assured that there were no matters of significance to report from work in those areas.

In response to Members questions it was heard that:

- Thematic reviews were undertaken for schools maintained by the County Council, which included a fairly substantive view of the school's financial value statements. Any particular areas of concern were addressed to the education finance team for review, with separate reporting to the Director of Children's Services for any schools which were noted to be in financial difficulty.
- Internal Audit had undertaken a proactive fraud review, looking at direct payments which would be brought to the next meeting of the Audit Committee in September.
- Of the 60 reviews which had been completed, eight had given rise to a limited statement. The two most common factors, data quality in the adult social care system and contract management, would be fed into the annual governance statement. It was further heard that proactive approaches in these two areas had already started, including the development of a new e-learning module for any staff members with contract management responsibilities.

RESOLVED:

That the Audit Committee approves the Annual Internal Audit Report & Opinion 2020-21.

10. INTERNAL AUDIT CHARTER 2021/22

Members received a report from the Director of Corporate Operations presenting the Internal Audit Charter for 2021/22.

Members heard that there had been no changes to the charter from the previous financial year.

RESOLVED:

That the Audit Committee approves the Internal Audit Charter 2021–22.

11. INTERNAL AUDIT PLAN 2021/22

Members received a report from the Director of Corporate Operations presenting the Internal Audit Plan for 2021/22.

Members heard that:

- In compiling the plan a range of measures had been taken into account. The plan had been compiled in liaison with directors and benchmarked against peers, coupled with internal audit's assessment of risk and legislative change.
- The plan was a live document, which would remain fluid to adapt to the changing needs of the organisation. Any changes would be reported to the Audit Committee for transparency, as part of the regular progress report.

RESOLVED:

That the Audit Committee approves the Internal Audit Plan 2021-22.

12. ANNUAL TREASURY OUTTURN REPORT 2021/21

The Committee received the report of the Director of Corporate Operations giving details on treasury activity during 2020/21.

Members heard that:

- All activity during the year had complied with County Council policy and statutory legislative requirements.
- The net investments position had reduced as a result of repaid borrowing, in line with maturity without refinancing. Investment income had largely come from fixed rate returns and pooled funds, which had recovered well following the pandemic and were worth marginally more than when first invested. Investment focus was to deliver long term stability and revenue return. Investments were monitored regularly and discussed with Arlingclose.

In response to Members questions it was heard that:

- The Council had an option to invest in the land in Manydown, which would be treated as a treasury management activity. The initial investment was made 25 years ago and all costs for consultancy and capital were regularly monitored with the expectation that returns would be realised from 2026/27.

RESOLVED:

That the Audit Committee note the following recommendation is being reported to Cabinet:

- That the outturn review of treasury management activities be noted.

13. 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.

14. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 12 FEBRUARY 2021 (EXEMPT)

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 12 February 2021.

Chairman, 29 September 2021

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HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	29 September 2021
Title:	Information Compliance – Use of Regulated Investigatory Powers
Report From:	Chief Executive

Contact name: Peter Andrews

Tel: 0370 779 1365 **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 disproportionately 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 2021 – 31 March 2022)

Direct Surveillance			
	Purpose of Surveillance		
2021-22 Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2			
3			
4			
Total -	0	0	0
Covert Human Intelligence Source (CHIS)			
	Purpose of Surveillance		
Quarter	C'feit Goods	Under Age Sales	Other
1	0	0	0
2			
3			
4			
Total -	0	0	0
Communications Data			
Quarter	Number of Applications	Number of Specific Notices	Offences related to:
1	1	1	Doorstep Crime
2			
3			
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

Report

Committee/Panel:	Audit Committee
Date:	29 September 2021
Title:	Hampshire County Council and Hampshire Pension Fund Audit Report for year ending 31 March 2021
Report From:	Ernst and Young LLP (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 present to the Audit Committee the preliminary audit conclusion in relation to the audit of Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2021.

Recommendation

2. That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund Audit Reports for year ending 31 March 2021.

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 disproportionately low.

2. Equalities Impact Assessment:

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

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Hampshire County Council

Audit results report

Year ended 31 March 2021

September 2021

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September 2021

Dear Audit Committee Members

We are pleased to attach our Audit Results Report, for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hampshire County Council for 2020/21.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Hampshire County Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 29 September 2021.

Yours faithfully

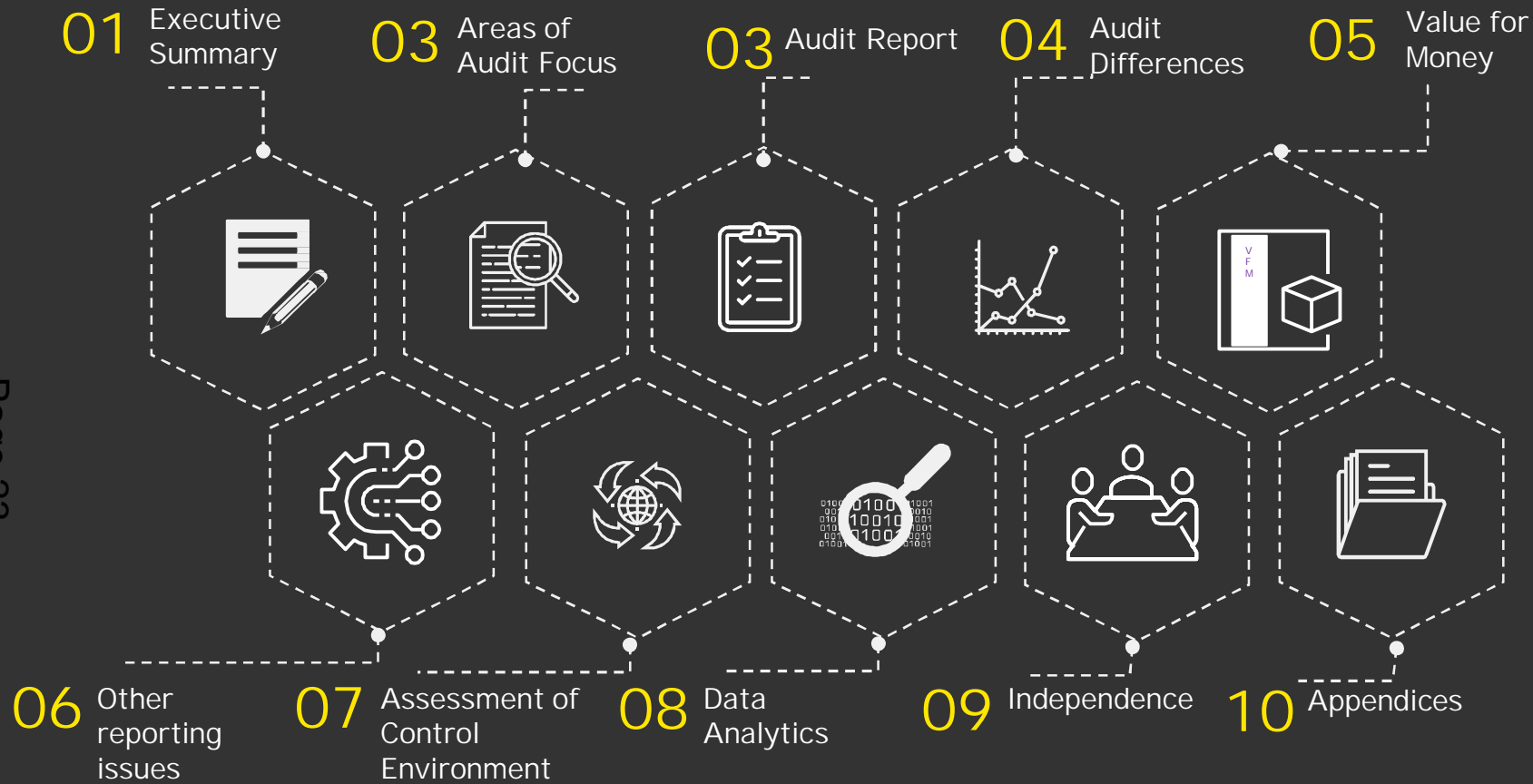
Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



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

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

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



01

Executive Summary



Executive Summary

Scope update

In our Audit Planning Report presented at the July 2021 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes in materiality

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £42.5million, with performance materiality, at 75% of overall materiality, of £31.9 million, and a threshold for reporting misstatements (nominal amount) of £2.1million. This was based on prior year's final materiality. This was re-assessed at the year end based on 2020/21 Accounts. Audit procedures have been performed using a materiality of £46.5 million, with performance materiality, at 75% of overall materiality, of £34.9 million, and a threshold for reporting misstatements (nominal amount) of £2.3 million.

The basis of our assessment has remained consistent with prior years at 1.8% of gross expenditure on services.

Information Produced by the Entity (IPE): As a result of Covid-19, we identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited;
- Agree IPE to scanned documents or other system screenshots; and
- Gained our own access to the accounting software to enable us re-run reports ourselves

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

Executive Summary

Status of the audit

We have substantially completed our audit of Hampshire County Council's (HCC) financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise. A list of outstanding items can be seen at Appendix C.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the financial statements which could influence our final audit opinion.

Auditor responsibilities under the new Code of Audit Practice 2020

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

The specified reporting criteria are:

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

Status of the audit – Value for Money

In the Audit Plan, we reported that we were yet to finalise our value for money (VFM) risk assessment. We have now completed this work and have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the National Audit Office's (NAO) 2020 Code. We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary within 3 months of issuing our opinion on the accounts, as part of issuing the Auditor's Annual Report.



Executive Summary

Audit differences

We identified one audit difference that management have chosen not adjust due to materiality. The net impact of unadjusted audit difference is a credit of £13.5 million to the Balance Sheet (Debtors) and a debit to the CIES (Council Tax Income). The misstatement arose as a result of a timing difference of returns being received from billing authorities after preparation of draft accounts). We agree with management that this is not material.

We also note that there have been a number of disclosure errors which have been adjusted for by management. The largest disclosure error related to the Property Plant & Equipment (PPE) Note where there was a material reclassification error in the Gross Book Value and Accumulated Depreciation figures (NBV remains correct therefore no impact on Balance Sheet or reserves).

Further detail can be seen in Section 4.

Other reporting issues

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

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

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020-21 WGA Data Collection Tool and update the guidance that is available for preparers. Based on the last available update the data collection tool and guidance was not expected to be available until December 2021. Therefore the 2020-21 WGA component data will not be available for auditors to review until later in the year. Group Audit Instructions and the timetable for 2020-21 will necessarily follow any changes HMT make to the DCT and process.

We will report any matters arising from this work to the Audit Committee, and certify the completion of the audit after these procedures are completed.



Executive Summary

Areas of audit focus

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

Audit findings and conclusions: Misstatements due to fraud or error

- We have no findings to report to the Audit Committee.

Audit findings and conclusions: Inappropriate capitalisation of revenue expenditure

- We have no findings to report to the Audit Committee.

Audit findings and conclusions: Investment property valuation

- We have engaged EY Valuation experts to assist in the testing of investment properties given the material uncertainty due to the fact that more valuer judgement is required as there is less transactional evidence to support market assumptions. Their report is still outstanding.

Audit findings and conclusions: Land and buildings valuation

We have engaged EY Valuation experts to assist in the testing of assets valued using the Existing Use Value (EUV) valuation method and to advise on appropriateness of assumptions. Their report is still outstanding.

- We noted a reclassification difference in opening balances which has been agreed and corrected by management.
- We have also noted a difference in the indexation of assets not revalued in the year which we are in the process of agreeing with management.

Audit findings and conclusions: IAS 19 pension accounting

- We are awaiting the final results of the work performed by the Pension Fund Auditor.
- We have engaged our specialists EY Pensions to assist in our conclusions over the completeness and accuracy of the model used by the actuaries in determining the obligation attributable to the County Council, in order to satisfy the requirements of the revised ISA. This work is still ongoing.
- Our procedures to date have not noted any issues to be brought to the attention of the Audit Committee, and we will provide a verbal update at the Audit Committee meeting.

Audit findings and conclusions: Private Finance Initiatives

- Following the adjustments noted in the prior year management are working on an alternative Streetlighting PFI model. We have confirmed with management that this "re-work" is not in place for 2020/21. The classification difference noted last year, therefore still remains for the financial year ended 31 March 2021.



Executive Summary

Areas of audit focus - continued

Audit findings and conclusions: Going concern disclosure

- We have agreed the layout and content of the disclosure with management and will review on receipt of the final statements.
- We have no other findings to report to the Audit Committee

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

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

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

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Control observations

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

Independence

Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

What judgements are we focused on?

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

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

What did we do?

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

What are our conclusions?

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

We have not identified any instances in estimates of inappropriate judgements from management bias being applied.

Our journal testing did not identify any journal entries without a valid business purpose.

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





Areas of Audit Focus

Significant risk

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

What is the risk?

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

What judgements are we focused on?

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

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

As such, we have focussed on significant additions to Property, Plant & Equipment (PPE) and managements judgement as to what they recognise as capital and what they recognise as revenue spend.

What did we do?

We have extended our testing of items capitalized in the year by raising our combined risk assessment. This means we will identify a larger sample of key items, as our testing threshold will be lowered, and select a large representative sample through the use of our audit risk tables.

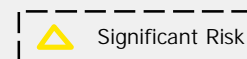
For significant additions (including capitalized labour (staff costs), borrowing costs and other acceptable costs) we examined invoices, capital expenditure authorizations, leases and other data that supported these additions and ensured that the items are capital in nature, and did not include revenue items.

We have designed additional journal tests to identify high risk journals that may be an indication of management override. We reviewed journals where management have capitalized expenditure outside the normal process. Specifically; Where management have posted to additions from outside the capital codes, and where management have manually posted to the capital codes from another expenditure code.

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition including any PPE additions which have been inappropriately capitalised and should have been charged to revenue.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of HCC's financial position.





Areas of Audit Focus



Valuation methods applied

What is the risk/area of focus?

Valuation of investment property

Investment properties (along with land and buildings) are one of the most significant balances in the HCC's Balance Sheet. The valuation of land and buildings held as investment property is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

What did we do?

We have:

- Considered the competence, capability and objectivity of the County Council's valuer;
- Considered the scope of the valuer's work;
- Ensured assets have been revalued annually as required by the Code;
- Considered if there are any specific changes to assets that should have been communicated to the valuer;
- Sample tested key inputs used by the valuer when producing valuations (for example, income from leases);
- Considered the results of the valuer's work and engaged EY Valuation experts (EYRE) to assist in testing the valuation of assets that may be more susceptible to market volatility to respond to potential risks, including the impact of COVID-19.
- Challenged the assumptions used by the valuer by reference to external evidence;
- Tested journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- Reviewed the disclosures to ensure that adequate disclosures are made in relation to estimation uncertainty.

Conclusion: We have substantially progressed our work in this area. We are yet to receive the final report from the EY Valuations team. We will inform the Audit Committee verbally of progress made in relation to this and include any adjustments arising as a result of our review. These adjustment, if any, will be communicated with management.

At the time of writing the report, no findings had been noted by the audit team that required communication to the Audit Committee.



Areas of Audit Focus



Valuation methods applied

What is the risk/area of focus?

Valuation of land and buildings

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

What did we do?

We have:

- Considered the competence, capability and objectivity of the Authority's valuer;
- Considered the scope of the valuer's work;
- Ensured land and building assets have been revalued within a 5 year rolling programme as required by the Code;
- Considered if there are any specific changes to assets that should have been communicated to the valuer;
- Sample tested key inputs used by the valuer when producing valuations (for example cost, area, fees);
- Considered the results of the valuer's work and engaged EY Valuation experts (EYRE) to assist in testing the valuation of assets that may be more susceptible to market volatility to respond to potential risks.
- Challenged the assumptions used by the valuer by reference to external evidence;
- Tested journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- Tested a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct; and
- Reviewed assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated.
- Reviewed the disclosures to ensure this is adequate in relation to estimation uncertainty

Conclusion:

We have noted a reclassification difference in opening balances which has been agreed and corrected by management. Further detail can be seen in Section 4.

We have also noted a difference in our analysis of assets not revalued in the year based on the indices used in calculating this analysis and we have recorded a judgmental misstatement. This results in a difference of £35 million which we are in the process of agreeing with management and expect them to adjust.

We are yet to receive the final report from the EY Valuations team. We will inform the Audit Committee verbally of progress made in relation to this and include any adjustments arising as a result of our review. These adjustment, if any, will be communicated with management.



Areas of Audit Focus



Valuation methods applied

What is the risk/area of focus?

Pension liability valuation

The Local Authority Accounting Code of Practice and IAS19 require the CC 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 balance sheet.

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.

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

What did we do?

We have:

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hampshire County Council, including the review of Hampshire Pension Fund's financial statements and comparison to the year end asset value with the estimate used by the actuary when producing the County Council's IAS 19 report. (note this has not yet concluded);
- Assessed the work of the Hampshire Pension Fund actuary (AoN Hewitt) including the assumptions they used by relying on the work of PWC – Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered review of this report by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within HCC's financial statements in relation to IAS19; and

One issue has arisen across all local government audits that needs to be resolved prior to us being able to fully conclude our work. This is in relation to the impact of the new auditing standard on accounting estimates. We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We will provide the Committee with a verbal update on progress at the 29 September 2021 meeting.

Conclusion: We are yet to conclude on this work and will provide the Audit Committee with an update at the 29 September meeting.



Areas of Audit Focus

What is the risk/area of focus?	What did we do?
<p>Private Finance Initiatives The Council has two PFI contracts in place, in respect of waste and street lighting, with liabilities amounting to £161 million in 2020/21. These were both operational and recognised in the Council's balance sheet as at 31 March 2021.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Reviewed for any changes in the financial model made from previous years and confirmed the assumptions used continue to be appropriate. • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements <p>In the prior year, we involved EY specialists in this area to ensure accounting treatment and values proposed by the Council is appropriate. This work included analysis of the contracts and review and consideration of the financial model. Following this review some adjustments were noted. Following these discussion, management are looking into a "re-work" of the model. However this has not been completed for the 2020/21 financial statements. We have therefore noted similar adjustments to the prior year.</p> <p>Conclusion: In the prior year, the work conducted by EY specialists has identified a difference in the streetlight model used. This results from the Council's use of a fixed annuity approach, whereas we judge the actual interest rate can be calculated. We have considered the impact on the 2020/21 Financial Statements and this difference results in a classification adjustment between headings in the Comprehensive Income & Expenditure Statement of £19.5 million, and an impact to the Balance Sheet of £1.273 million. Management have chosen not to adjust this difference due to materiality.</p>
<p>Going Concern There is a presumption that the County Council will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the Authority to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.</p> <p>The Authority is then required to ensure that its going concern (or basis of preparation) disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p> <p>We consider the unpredictability of the current environment to give rise to a risk that the Authority will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.</p> <p>There are also additional procedures we will need to perform to comply with the new International Standard of Auditing in relation to Going Concern which is applicable for this year end (ISA 570),</p>	<p>Procedures we are performing:</p> <ul style="list-style-type: none"> • Obtaining Management's going concern assessment and reviewing for any evidence of bias and consistency with the accounts; • Reviewing the financial modelling and forecasts prepared by the County Council. We considered and tested key assumptions, focusing on the reasonableness of the liquidity forecasts up to a date of 12 months after the signing date of the accounts and opinion. This assessment therefore needs to extend beyond the 2021/22 financial year, and into 2022/23; • Ensuring that an appropriate going concern disclosure has been made within the financial statements; • Reviewing the County Council's approach to identifying and disclosing events after the balance sheet date; and • Considering the impact on our audit report and comply with EY consultation requirements. <p>Conclusion: We have reviewed the cashflow forecasts prepared by the County Council and are satisfied with the reasonableness of the assumptions which covers the period to 31 March 2023.</p> <p>We have agreed the content and layout of the disclosure with management and will review on receipt of final Statement of Accounts.</p>



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO HAMPSHIRE COUNTY COUNCIL

Opinion

We have audited the financial statements of Hampshire County Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Balance Sheet;
- Cash Flow Statement;
- Comprehensive Income and Expenditure Statement
- and related notes 1 to 31

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hampshire County Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of to March 2023 from when the financial statements are authorised for issue.

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

Other information

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

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

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

We have nothing to report in this regard.



Audit Report

Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021

We have nothing to report in these respects

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Finance Officer Responsibilities set out on page 31, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



Audit Report

Draft audit report

Our opinion on the financial statements

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

Local Government Act 1972,
School Standards and Framework Act 1998,
Transport Act 2000,
Education Act 2002 and school Standards and Framework Act 1998 (England) applicable to Local education authorities in receipt of Dedicated Schools Grant,
Local Government Act 2003,
The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
National Health Service Act 2006,
The Local Audit and Accountability Act 2014, and
The Accounts and Audit Regulations 2015.

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

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

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

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

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

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

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

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



Audit Report

Draft audit report

Our opinion on the financial statements

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

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

Delay in certification of completion of the audit

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

Use of our report

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





04 Audit Differences

Audit Differences

Summary of unadjusted differences

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

Uncorrected misstatements 31 March 2021		Effect on the current period:	 Balance Sheet				Equity Debit/ (Credit)
			Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	
Known differences:							
Overstatement of Council Tax and NDR Income (timing difference)		13,536,675	(13,536,675)				
Judgemental differences:							
• PFI model differences		1,271,000	2,000			-1,273,000	
• Property, Plant & Equipment valuation (still to be concluded with management)	(35,084,210)			35,084,210			

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the statement of accounts for the year ended 31 March 2021.



Audit Differences

Summary of adjusted differences

We highlight the following material disclosure error which has been corrected by management:

The error relates to the Gross Book Value and Accumulated Depreciation figures in the PPE Note. We note that these adjustment do not impact the Net Book Values (NBVs) and therefore there is no impact on the Balance Sheet. The differences noted are as follows:

Other Land and Buildings - £145,670k

VPF&E - £9,229k

Infrastructure - £21,036

Surplus - £162k

These are historical difference that have arisen due to a difference between SAP GL Codes and SAP Asset Register. The General Ledger balances included a number of nil NBV which were not loaded into the asset register.



05 Value for Money



Value for money

Hampshire County Council responsibilities for value for money (VFM)

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

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

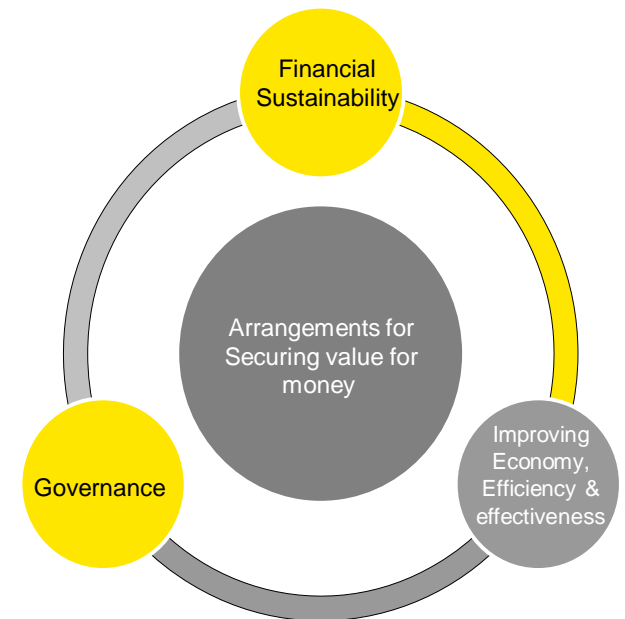
Risk assessment

Throughout the audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements. No significant risks were identified throughout the risk assessment stage.

Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary within 3 months of giving our opinion on the accounts, as part of issuing the Auditor's Annual Report.





06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements

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

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

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

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Whole of Government Accounts

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

We have not yet been able to perform the procedures required by the NAO on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020-21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance is not expected to be available until December 2021. Therefore the 2020-21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020-21 will necessarily follow any changes HMT make to the DCT and process

We will report any matters arising to the Audit Committee.

Other powers and duties

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

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

Other reporting issues

Other matters

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

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

We have no significant findings to communicate.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. In our audit approach we place reliance on the ISAE 3402 report on the Hampshire County Council Integrated Business Centre.

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

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



08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics

Analytics Driven Audit

Data analytics

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

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

In 2020/21 our use of these analysers in HCC's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

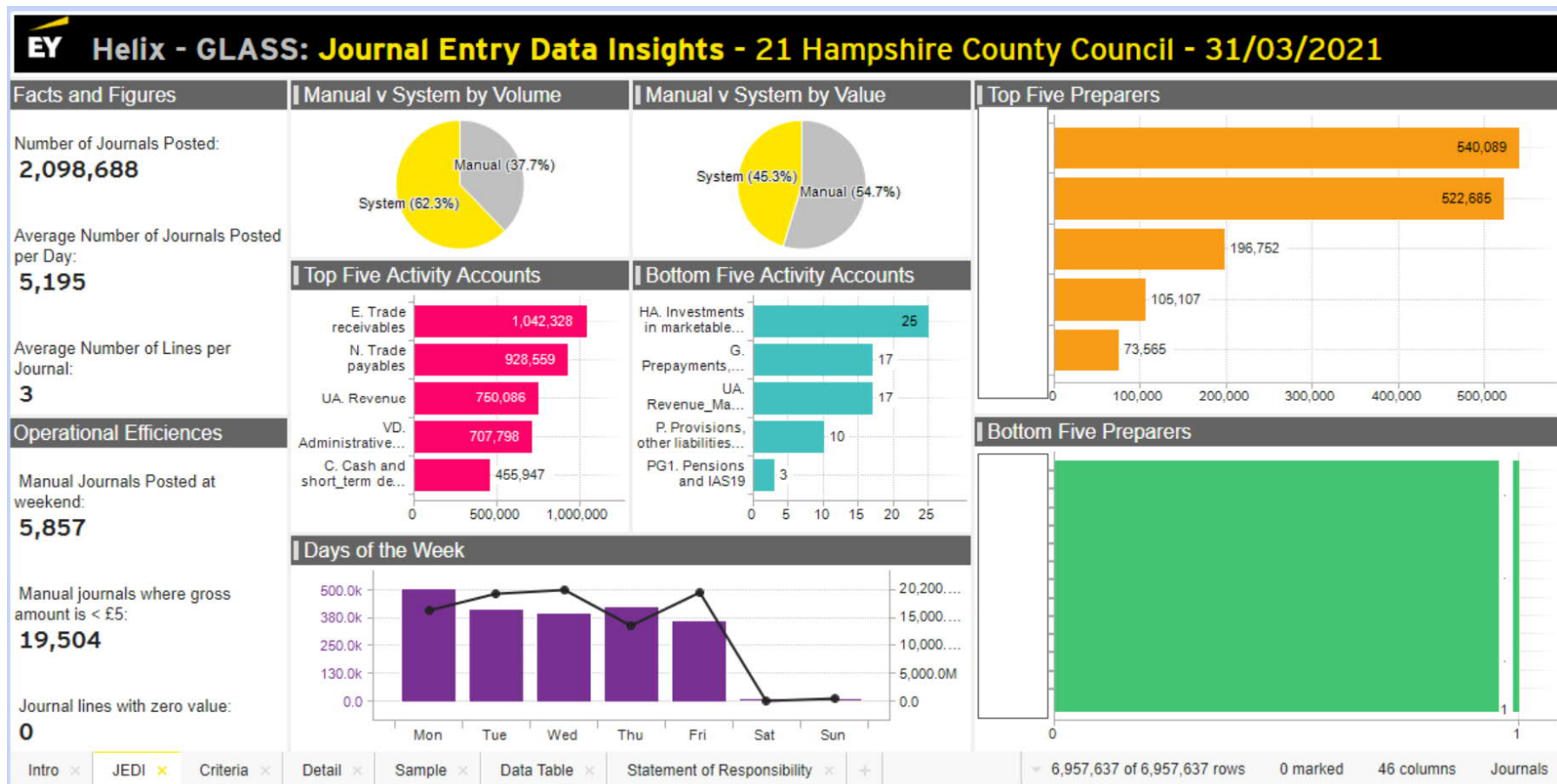
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions,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



Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2020/21. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

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





Journal Entry Testing

What is the risk?

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

Journal entry data criteria – 31 March 2021

What judgements are we focused on?

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

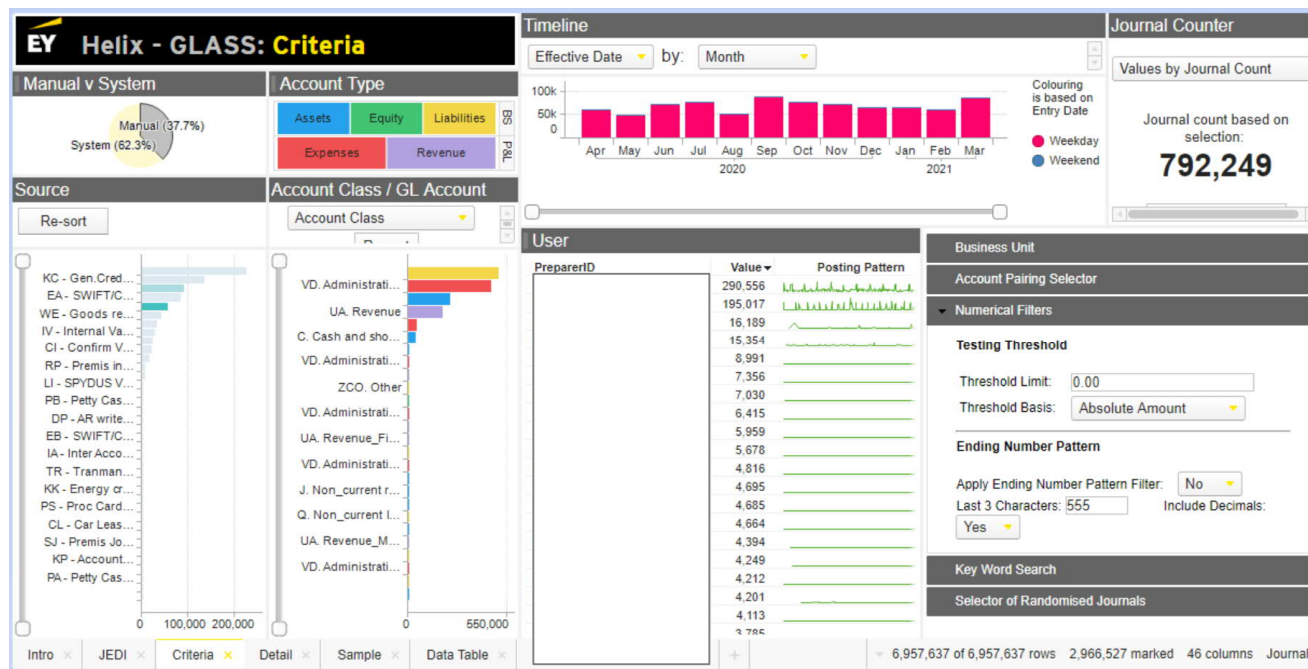
What did we do?

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

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

What are our conclusions?

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





09

Independence

Relationships, services and related threats and safeguards



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

There are no relationships from insert start of financial year to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. We highlight in the table below the most significant services that may be reasonably considered to bear upon our integrity, objectivity and independence

Description of service	Related independence threat	Safeguards adopted and reasons considered to be effective
ISAE 3402 report on Integrated Business Centre	Self-review threat	The work will be led and delivered by a separate SOC reporting team. No members of the audit team will work on this project. The remuneration of the Engagement Lead and the audit team are not impacted by this project.

As at the date of this report, we expect to be engaged for the above non-audit service for 2021/22. There are no other future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Board Report dated June 2021.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so.

As part of our reporting on our independence, we set out below a summary of the fees due to us in relation to our audit of your financial statements for the years ended 31 March 2020 and 2021.

	Planned fee 2020/21	Final Fee 2019/20*
	£	£
Base Audit Fee – Code work	89,720	89,720
Non Audit Fee – ISAE 3402 report on IBC	56,500	56,500
	2020/21	2019/20
	£	£
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	39,246	39,246
Scale fee variation – Covid-19 and Going Concern considerations, addressing risks on PPE valuation and IAS 19 work and VFM conclusion	TBC	26,443

* the variation for 2019/20 scale fee is still subject to approval by PSAA

2020/21 Fees:

We are not yet able to provide a final fee for the 2020/21 audit. This is for two reasons:

- The audit is not fully complete, as noted in the list of outstanding procedures set out in the appendices of this report.
- We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements.

The areas in which we have completed additional work and as such we will be proposing a fee variation to the base scale fee are:

- Revised ISAs in respect of Estimates and Going Concern as noted in the Audit Plan presented in June 2021
- Additional procedures in relation to Covid-19 and new value for money requirements
- Use of experts in relation to Pensions to satisfy revised ISA requirements.

Once we have completed the audit we will assess the final fee, discuss with management and provide an update to the Audit Committee.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



10 Appendices

Audit approach update

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

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

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

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Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	No change
Tangible Fixed Assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Trade payables	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	We relied on the ISAE 3402 report on the IBC to rely on controls with limited substantive testing performed in accordance with auditing standards	No change
Cash, borrowings and investments	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Pension Liability	Substantively tested all relevant assertions. We engaged EY Pensions to assist with reviewing actuary model.	Substantively tested all relevant assertions	We engaged our pensions specialists due to the requirements of ISA540 (revised)

Appendix A

Audit approach update - continued

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
PFI	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Developers Contributions	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Grants Received in Advance	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change

Appendix B

Required communications with the Audit Committee

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

Our Reporting to you		
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report dated July 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report dated July 2021
Significant findings from the audit	<ul style="list-style-type: none"> Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process 	This Audit results report

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • 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 	<p>This Audit results report</p> <p>No conditions or events were identified, either individually or together to raise any doubt about HCC's ability to continue for the 12 months from the date of our report</p>
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	This Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Attending Audit Committee – 29 September 2021
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Formal enquiry letter sent and response received from Chair of Audit Committee.</p> <p>and</p> <p>This Audit results report</p>

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	This Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	<p>Audit planning report dated July 2021 and</p> <p>This Audit results report</p>

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> Details of any inconsistencies between the Ethical Standard and Council's policy for the provision of non-audit services, and any apparent breach of that policy Details of any contingent fee arrangements for non-audit services Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	This Audit results report






Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	This Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	This Audit results report
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	This Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report dated July 2021 This Audit results report

Appendix C

Outstanding matters

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

Item 	Actions to resolve 	Responsibility 
Valuations of investment properties and Land & Buildings	EYRE report outstanding	EY
IAS 19 Pension Liability	EY Pensions report in relation to completeness and accuracy of model used by actuary in determining Authority obligation. Pension Fund auditor final report outstanding	EY
Finalisation of adjustments	Finalisation of adjustments	EY
Income and expenditure analytical review	Variance explanations to be obtained and reviewed for reasonableness by audit team	Management & EY
Workpaper finalisation	Finalisation of workpapers to be completed	EY
Management representation letter	Receipt of signed management representation letter	Management and audit committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
WGA	Receipt of instruction re. WGA procedures	EY
Check of Final Account i.e. post any adjustments made	Receipt and review of Final Accounts	EY and Management
Senior Manager and Associate Partner Final Review	Final Review of Audit Procedures	EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion. A draft of the current opinion is included in Section 3.

Management representation letter

Management Representation Letter – to be finalised on completion of all outstanding audit procedures

Kevin Suter

Ernst & Young LLP

Grosvenor House,

Grosvenor Square,

Southampton SO15 2BE,

This letter of representations is provided in connection with your audit of the financial statements of Hampshire County Council for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Hampshire County Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free from material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes controls, policies and procedures that we may have made to address the effects of the Covid-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and have therefore not adjusted them.

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

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

Management representation letter

Management Representation Letter

- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committees held through the period to the most recent meeting on the following date: [list date].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter (14 January 2021) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.

E. Going Concern

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

Management representation letter

Management Representation Letter

F. Subsequent Events

1. Other than the events described in Note 26 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to the period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment properties, land and buildings and the IAS 19 actuarial valuations of pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

1. We confirm that the significant judgments made in making the valuation of investment properties, land and buildings, PFI and IAS19 pensions liability (the accounting estimates) have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.

3. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out any specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

J. Retirement benefits

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

Signed on behalf of Hampshire County Council

I confirm that this letter has been discussed and agreed by the Audit Committee

Signed:

Position: Chief Finance Officer

Date:

Position: Chairman of the Audit Committee

Date:

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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

ey.com

Hampshire Pension Fund

Audit results report

Year ended 31 March 2021

September 2021

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September 2021

Dear Audit Committee Members

We are pleased to attach an Audit Results Report for the forthcoming meeting of the Audit Committee. We will update the Committee at its meeting on 29 September 2021 on further progress to that date and explain the remaining steps for the issue of our final opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Hampshire Pension Fund's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. This report is intended solely for the information and use of the Audit Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 29 September 2021

Yours faithfully

A handwritten signature in blue ink that reads "Kevin Suter".

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

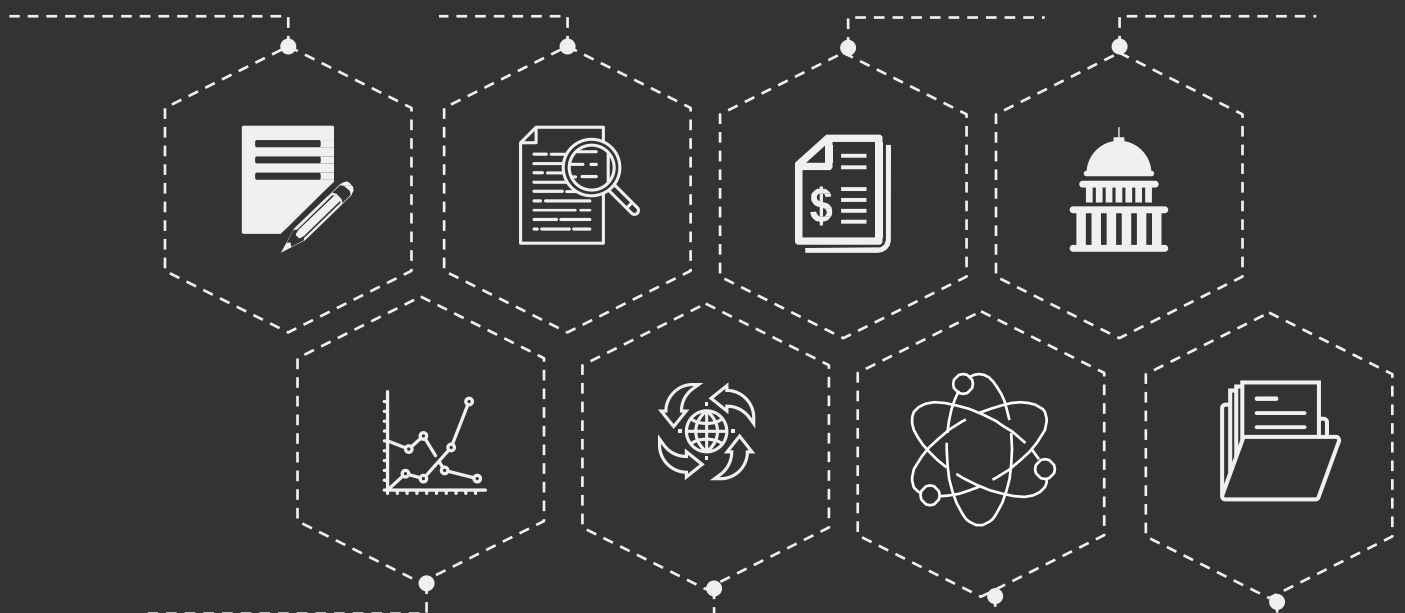
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02 Areas of Audit Focus

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05 Other reporting issues

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



01

Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented to the 26 July 2021 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan with the following updates.

Changes in materiality

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

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1% of the Fund's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£69.10 million	£51.82 million	£3.46 million
Final	£90.73 million	£68.05 million	£4.54 million

Auditing accounting estimates

A revised auditing standard has been issued for the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether or not there is a significant risk.. The changes to the standard have affected the nature and extent of information requested and increased the level of audit work required.



Executive Summary

Status of the audit

Our audit work in respect of the Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Agreement of all final amendments to the financial statements
- ▶ Update of our subsequent events procedures to the date of our opinion
- ▶ Receipt of a signed letter of management representation
- ▶ Testing of directly held property
- ▶ We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited pension fund financial statements. The audit of the full annual statement of accounts of Hampshire County Council for the year ended 31 March 2021 is not yet complete.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the accounts which could influence our final audit opinion.

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Audit differences

At the date of this report, there are no unadjusted or adjusted audit differences which require your attention. Differences may still be identified on completion of the audit procedures above.



Executive Summary

Areas of audit focus

Our Audit Plan identified significant risks and areas of focus for our audit of the Pension Fund's financial statements. We summarise below our latest findings. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised in the "Areas of Audit Focus" section of this report.

Fraud risks	Findings & conclusions
Misstatements due to fraud or error	<p>We carried out procedures to address fraud risks as set out in our Audit Plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach.</p> <p>We also performed a reconciliation between the fund managers reports and the custodian reports to address the risk of manipulation of asset valuations.</p> <p>We have completed our work in this area and have no matters to bring to your attention.</p>
Significant risk	Findings & conclusions
Valuation of complex investments (Level 3 Fair Value hierarchy)	<p>We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's complex investments disclosed as level 3 in the fair value hierarchy, and therefore inherently more difficult to value.</p> <p>We have completed our work in this area and have no matters to bring to your attention.</p>
Areas of audit focus	Findings & conclusions
Valuation of non-exchange traded pooled funds (Level 2 Fair Value hierarchy)	<p>We carried out procedures as set out in our Audit Plan to ensure that these investment valuations are supported.</p> <p>We have completed our work in this area and have no matters to bring to your attention.</p>
Valuation of directly held property (Level 2 Fair Value hierarchy)	<p>We sample tested key inputs, and challenged key assumptions, used by the valuer in producing the property valuation.</p> <p>We also involved our own expert to review a sample of property valuations. The work in this area is ongoing</p>
Disclosure on Going Concern	<p>We obtained managements going concern assessment and assessed the adequacy of the disclosures in the financial statements.</p> <p>The work in this area is ongoing</p>



Executive Summary

Control observations

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

Independence

Please refer to Section 7 for our update on Independence.



02 Areas of Audit Focus





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

What judgements are we focused on?

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

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

What did we do?

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

What are our conclusions?

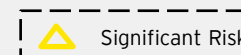
We have not identified any material weaknesses in controls or evidence of material management override.

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

Our journal testing did not identify any journal entries without a valid business purpose.

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

We identified no unexplained differences between the fund's investment values provided by the custodian or fund managers, to those presented in the financial statements.





Areas of Audit Focus

Significant risk

Valuation of complex Investments (Level 3 Fair Value hierarchy)

What is the risk?

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

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

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

What judgements are we focused on?

The judgements we are focussed on are the date of the data and prices used when not information not publicly available. For these we have performed analytical procedures and obtained third party confirmations to verify.

What did we do?

We:

- ▶ reviewed 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 were not as at 31 March 2021, we performed analytical procedures and other procedures to assess the valuation for reasonableness against our own expectations;
- ▶ Reviewed the fund managers latest controls report to assess whether the fund manager maintained appropriate controls to prevent and detect material misstatement in the pricing of assets; and
- ▶ tested that accounting entries were correctly processed in the financial statements.

What are our conclusions?

We have completed our testing and have not noted any issues with the judgements used in the valuation of level 3 investments





Areas of Audit Focus

What is the risk/area of focus?	What did we do?
<p>Valuation of non-quoted pooled investments (level 2) The Pension Fund's investment valuations are classified into three levels, according to the quality and reliability of information used to determine fair value. As at 31 March 2021, Hampshire Pension Fund held a significant balance of non-exchange traded pooled funds which are classified as Level 2</p> <p>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.</p> <p>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.</p>	<p>We have:</p> <ul style="list-style-type: none"> ► Reconciled the valuation of the non-quoted assets provided by the custodian and fund manager ► Verified the fund manager unit valuation to recent unit sales using externally available market information ► Reviewed the latest available audited accounts for the relevant fund and ensured there were no matters arising that highlight weaknesses in the fund's valuation ► Performed an analytical review of the pooled funds movement in year against the specific market movements the fund is invested in <p>Conclusion: We have completed our testing and have not noted any issues with the judgements used in the valuation of level 2 investments.</p>
<p>Valuation of directly held property</p> <p>Directly held property are valued at level 2 in the fair value hierarchy, and subject to valuation changes.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end valuation</p> <p>As the pension fund asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that directly held property may be under/overstated.</p> <p>We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<p>We have:</p> <ul style="list-style-type: none"> ► Considered the competence, capability and objectivity of the Council's valuers; ► Sample tested key inputs used by the valuer when producing valuations; ► Challenged the assumptions used by the Pension Fund's property valuers by reference to external evidence and our EY valuation specialists; <p>Conclusion: work in this area remains ongoing. We will provide a verbal update to the Committee.</p>



Areas of Audit Focus

What is the risk/area of focus?

Disclosures on going concern

There is a presumption that the Pension Fund will continue as a going concern for the foreseeable future. However, the Pension Fund is required to carry out a going concern assessment that is proportionate to the risks it faces.

In light of the continued impact of Covid-19, there is a need for the Pension Fund to ensure its going concern assessment, including its cashflow forecast, is comprehensive.

The Pension Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

Given the available levels of liquid investment assets, we do not consider there to be a risk to the Fund's going concern status. We do consider the unpredictability of the current environment to give rise to a risk that the Pension Fund may not appropriately disclose the key factors relating to going concern, consistent with managements assessment with particular reference to Covid-19

What did we do?

We will:

- ▶ Assess the adequacy of disclosures in 2020/21;
- ▶ Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts;
- ▶ Review the financial modelling and forecasts prepared by the Pension Fund. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion;
- ▶ Ensure that an appropriate going concern disclosure has been made within the financial statements;
- ▶ Consider the impact on our audit report and comply with EY consultation requirements, if such are determined appropriate.

Conclusion: The work in this area remains ongoing



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Director of Corporate Operations is responsible for the other information contained within the Statement of Accounts 2020/21.

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

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

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



Audit Report

Draft audit report

Our opinion on the financial statements

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

We have nothing to report in these respects

Responsibility of the Director of Corporate Operations

As explained more fully in the Statement of the Director of Corporate Operations' Responsibilities set out on pages [...], the Director of Corporate Operations is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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



Audit Report

Draft audit report

Our opinion on the financial statements

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified management override of control to be our fraud risk, including the potential manipulation of journal entries of investment asset values.

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

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

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

Use of our report

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



04 Audit Differences



Audit Differences

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

Summary of audit differences

At the date of this report there are no unadjusted or adjusted audit differences which require your attention



05 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited pension fund financial statements. The audit of the full annual statement of accounts of Hampshire County Council for the year ended 31 March 2021 is not yet complete.

In addition, we also perform procedures to ensure the consistency of the pension fund accounts with the version presented in the Pension Fund's Annual Report. This is not yet complete, as we are yet to receive the Annual Report. We do not anticipate any issues to arise.

Other powers and duties

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

Other matters

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



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

Our responsibilities

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

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

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

Findings

We have not identified any significant deficiencies in internal control.



07

Independence

Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2020 to the date of this report which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that are due to us in relation to the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

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

Page 97	Planned fee 2020/21	Scale fee 2020/21	Fee 2019/20
	£	£	£
Scale fee	24,442	24,442	24,442
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	31,738		31,738
Proposed Scale fee variation (Note 1)	TBC		15,338
Total audit	TBC	24,442	71,518

1) As detailed in our 2019/20 Annual Audit Letter for Hampshire County Council and Pension Fund, we have submitted a proposed recurrent rebasing of the scale fee. We also submitted a scale fee variation for 2019/20 for the impacts of Covid-19 on our audit strategy.

PSAA are yet to review conclude on either variation submission.

All fees exclude VAT.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)





08 Appendices

Appendix A

Required communications with the Audit Committee

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

Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report July 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report July 2021
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	This Audit results report



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 	<p>This Audit results report</p> <p>No conditions or events were identified, either individually or together to raise any doubt about HPF's ability to continue for the 12 months from the date of our report</p>
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Audit results report
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Attending Audit Committee - 21 September 2021
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> Management; Employees who have significant roles in internal control; or Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>Formal enquiry letter sent and response received from Chair of Audit Committee. and</p> <p>This Audit results report</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	This Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	<p>Audit planning report July 2021 and</p> <p>This Audit results report</p>



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	This Audit results report



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	This Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	This Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	This Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report July 2021 and This Audit results report

Management representation letter

Hampshire Pension Fund.

Management Representation Letter

xx September 2021

Kevin Suter
Associate Partner
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Hampshire Pension Fund ("the Fund") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 01 April 2020 to 31 March 2021 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2021, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

Management representation letter

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/2021 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations including fraud

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

C. Information Provided and Completeness of Information and Transactions

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

Management representation letter

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
4. We have made available to you all minutes of the meetings of Audit Committee and Pension Fund Advisory Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following [date].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
8. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/2021
9. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

E. Going Concern

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

F. Subsequent Events

1. Other than the events described in Note [X] to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Management representation letter

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Independence

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

I. Derivative Financial Instruments

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

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

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

K. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on their report.

L. Use of the Work of a Specialist

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

M. Estimates

1. We confirm that the significant judgments made in making the IAS26 disclosure, property and alternative investments valuations estimates ("the accounting estimates") have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
3. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Audit Committee
Date:	29 September 2021
Title:	Statement of Accounts 2020/21
Report From:	Director of Corporate Operations

Contact name: Rob Sarfas

Tel: 0370 779 1556

Email: rob.sarfas@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to seek approval for the Statement of Accounts for Hampshire County Council and the Hampshire Pension Fund for the period ending 31 March 2021

Recommendation(s)

2. That the Statement of Accounts for 2020/21 for Hampshire County Council and the Hampshire Pension Fund be approved.
3. That the letters of representation for Hampshire County Council and the Hampshire Pension Fund set out in Appendix 1 be signed.
4. That delegated authority be given to the Director of Corporate Operations to approve any minor amendments to the Statement of Accounts prior to the issue of the final audit opinion and publication of the Statement of Accounts.

Executive Summary

5. The Accounts and Audit (Amendment) Regulations 2021 require the County Council's Statement of Accounts, including the Accounts of the Hampshire Pension Fund, to be approved and published by 30 September 2021. The County Council has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee.
6. The unaudited draft accounts were reviewed and signed by the Chief Financial Officer on 30 July 2021 as a true and fair view of the financial

position at 31 March 2021. The draft accounts were published on the County Council's website in line with the amended deadlines and enabled the commencement of the period for the exercise of public rights on or before the first working day of August 2021.

7. The external audit of the Statements is due to be completed by 30 September 2021 and the conclusions of the audit are contained within the external auditor's report, which is also on this agenda.
8. The end of year financial report for 2020/21 was considered by Cabinet on 13 July 2021 and the Statement of Accounts is consistent with that report.
9. This report presents the Statement of Accounts for 20/21 for the Audit Committee's approval. It also includes in Appendix 1 letters to the auditor containing representations by the Chief Financial Officer and members of the Audit Committee regarding information and systems of internal control to support the confirmation that the accounts present a true and fair view.
10. The report also recommends that the Director of Corporate Operations be given delegated authority to make minor amendments to the Statement of Accounts if required by the external auditor prior to the issue of the audit opinion.

Contextual information

Code of Practice on Local Authority Accounting

11. The attached Statement of Accounts has been drawn up in the form prescribed by the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. In addition, the Accounts and Audit Regulations 2015 contain certain requirements for disclosure in the Statement of Accounts.
12. The 2020/21 Code of Practice on Local Authority Accounting made changes to some accounting standards but none of them have had a material impact upon the County Council's accounts.

Statement of Accounts 2020/21

13. The extended nature of the coronavirus pandemic meant that the Accounts and Audit Regulations were amended for the 2020/21 financial year to allow the later publication of draft and audited accounts than usual.

14. The unaudited draft accounts were reviewed and signed by the Chief Financial Officer on 30 July 2021 as a true and fair view of the financial position at 31 March 2021. The draft accounts were published on the County Council's website in line with the amended deadlines and enabled the commencement of the period for the exercise of public rights on or before the first working day of August 2021.
15. The County Council's accounts are externally audited by EY. At the time of publication of this report, the audit work was nearing completion and the accounts remain draft until the conclusion of the audit, although it is anticipated that an unqualified audit opinion will be issued. Two noteworthy outstanding points are highlighted below, both of which could potentially result in changes to the accounts being agreed with EY but neither of which would affect the general fund or usable reserves of the County Council.
16. One of the outstanding items is linked to an amendment to the auditing standard dealing with an auditor's responsibilities relating to estimates and related disclosures in the accounts (ISA 540). This has meant that EY have had to change their audit approach with respect to the valuation of the County Council's pension liability in accordance with International Accounting Standard 19. At the time of publication of this report, this element of external audit work was in progress.
17. Similarly, at the time of publication of this report, EY's internal property specialists were in the process of finalising their report on the value of the County Council's land and buildings
18. The audit of the Pension Fund's accounts is also substantially complete. Like with the County Council's property assets, EY specialists are concluding their work on assessing the valuation of properties owned directly by the Pension Fund. EY are also concluding their review of going concern disclosures, but it is not anticipated that there will be any issues with this.
19. The draft conclusions of the audit are contained within the external auditor's reports for the County Council and the Pension Fund, which are presented elsewhere on this agenda.
20. Where changes have been agreed with the auditors between draft and final versions of the accounts, these are predominantly not significant and are largely presentational. One change of note relates to Note 19 and the County Council's Property, Plant and Equipment (PPE) assets. This will result in a change to the table presented on page 84 of the draft accounts. The opening gross book value (cost/valuation) will be reduced, offset by a corresponding change to the opening balance for accumulated depreciation and impairments. This is a presentational change relating to the way in which historic assets with nil Net Book Value (NBV) and capital repairs balances

were presented within the note and relates to the period prior to 2014/15. The changes have no impact on the NBV of the assets or any other sections of the accounts.

21. The County Council has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee and this report therefore presents the Statement of Accounts for 20/21 for the Audit Committee to approve for publication prior to the deadline of 30 September 2021. As the external audit had not been concluded at the time of publication of this report, the Audit Committee is asked to delegate authority to the Director of Corporate Operations to make amendments to the version of the Statement of Accounts included within the papers for this meeting as set out in the audit results report and any other minor amendments if required by the external auditor prior to the issue of the audit opinion.
22. There are no major changes to the format of the statement of accounts and they continue to follow the requirements of the Code of Practice for Local Authority Accounting (the Code) as set by the Chartered Institute of Public Finance and Accounting (CIPFA). One change in requirements to note however is the need to exclude any brought forward deficit relating to the Dedicated Schools Grant (DSG) from schools' reserves from 1 April 2020. The deficit at this date was £22.8m and the adjustment is highlighted in the Movement in Reserves Statement. There is no impact on total reserves, but the effect is to increase the opening balance of usable reserves and decrease unusable reserves by a corresponding amount.
23. The narrative report within the Statement of Accounts includes an explanation of how the required accounting presentation relates to the financial performance of the County Council as set out in the end of year financial report, which was presented to Cabinet on 13 July 2021.
24. Paragraphs 25 to 38 provide a summary of each section of the Statement of Accounts.

Narrative report

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

Statement of Responsibilities for the Statement of Accounts

27. This statement records the responsibility:

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

Movement in Reserves Statement

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

29. Total usable reserves were £755m as at 31 March 2021, a net increase of £112m on the previous year. Of this increase, £22.8m arises from the new requirement from 1 April 2020 to exclude the brought forward deficit relating to the Dedicated Schools Grant (DSG) from schools' reserves; £28m relates to the increase in reserves held by individual schools; and £30m relates to the Covid-19 financial response package. The balance includes the underspend by departments offset by planned draws from reserves to meet specific purposes.

Balance Sheet

30. This shows the value of the assets and liabilities recognised by the County Council. The net assets of the County Council are matched by reserves; either usable (£755m) or unusable (£1,944m).

31. The majority of the County Council's net worth is tied up in the value of its property plant and equipment, primarily the replacement value of land and buildings, which to the extent it exceeds outstanding borrowing is reflected in the value of the Revaluation Reserve and the Capital Adjustment account. The value would only become usable if the County Council was to dispose of all its fixed assets at their balance sheet value.

32. Unusable reserves are reduced by the pension reserve. This reserve provides a mechanism for recognising the County Council's actuarially assessed

pension liability in the balance sheet (as measured under IAS 19) but without requiring the liability to be considered when setting council tax. The County Council's net pension liability has increased from £1,501m as at March 2020 to £1,842m. This change is the result of an increase in the County Council's pension liabilities, partly because of a change in the assumed rate of inflation used by the actuary, partially offset by an increase in the value of the County Council's share of pension fund assets.

Cash flow statement

33. The Cash Flow Statement is designed to demonstrate the changes that have taken place in the Authority's cash position over the year and to highlight the causes of that change, namely the provision of services, investment in assets, and treasury management.

Comprehensive Income and Expenditure Statement

34. This Statement shows the accounting cost of providing services rather than the amount funded from taxation. The taxation position is shown in the Movement in Reserves Statement and the difference between them is summarised in the Expenditure and Funding Analysis (note 1) and then itemised in note 2 of the Statement of Accounts.
35. Notes 1 and 2 set out the accounting adjustments that explain the difference between the accounting deficit of £73m and the real impact on the general fund and earmarked reserves, which was a net increase of £112m as explained in paragraph 29.
36. The inclusion of other comprehensive income and expenditure such as net gains on the revaluation of assets and the actuarial gain or loss on pension fund assets and liabilities creates a bottom line figure on the Comprehensive Income and Expenditure Statement equal to the change in net worth on the Balance Sheet.

Notes to the Accounts

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

Hampshire Pension Fund

38. The accounts of the Hampshire Pension Fund show there was a surplus of contributions over benefits payable in the year of £226m, that net investment

income was £102m, and that the market value of investments rose by £1,888m in the year to 31 March 2021. The net assets of the Fund at the end of the year were £9,073m, an increase of £2,162m on the same time the previous year. This reflects strong investment performance as markets recovered following the impact of the coronavirus pandemic and pension contributions paid in advance by the Fund's employers received on 1 April 2020.

Annual Governance Statement

39. In accordance with regulations, the Annual Governance Statement (AGS) must accompany the published Statement of Accounts. The AGS is also presented elsewhere on the agenda for this meeting with the recommendation that it is approved by the Audit Committee.

Period of Public Inspection of the Accounts

40. In accordance with legislation, the County Council published a notice of public rights to:
- inspect the accounting records for the financial year ended 31 March 2021
 - make copies of all or any books, deeds, contracts, bills, vouchers, receipts and other documents relating to the accounting records
 - question the auditors about the accounts.
41. The specified period was from 2 August to 13 September 2021. No requests or questions were received in this respect.

Letters of Representation

42. In order to conclude the audit opinion, the external auditor requires written representations by the Chief Financial Officer and members of the Audit Committee confirming their confidence in and reliance on information and systems of internal control, thus enabling them to confirm that the accounts for the County Council and the Hampshire Pension Fund present a true and fair view. Draft letters are attached at Appendix 1.

Conclusions

43. The Statement of Accounts for 2020/21 for Hampshire County Council and the Hampshire Pension Fund have been prepared in accordance with legislative and regulatory requirements. The external audit is nearing completion and it is anticipated that an unqualified audit opinion will be

issued. The County Council is required to publish the Statement of Accounts as soon as the audit certificate is released and by 30 September 2021 at the latest. The Statement of Accounts and the audit opinion will be published on Hantsweb.

Consultation, Equalities and Climate Change Impact Assessment

44. The Statement of Accounts summarises the financial transactions incurred following the approved revenue budget and capital programme. Consultation on the budget is undertaken every two years when the County Council considers savings to help balance the budget. All savings proposals put forward by the County Council have an Equality Impact Assessment published as part of the formal decision making papers and for some proposals stage 2 consultations are undertaken before a final decision is made by the relevant Executive Member.
45. The Accounts and Audit (Amendment) Regulations 2021 require the County Council's Statement of Accounts to be approved and published by 30 September 2021. This report deals with this statutory requirement, which is a financial reporting matter, and therefore no consultation or Equality Impact Assessments are required.
46. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
47. In managing its financial resources, climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process.
48. This report deals with the statutory requirement to approve and publish a Statement of Accounts, which is a financial reporting matter and there are therefore no further climate change impacts as part of this report.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

It relates to the effective governance of the County Council

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>
HCC draft statement of accounts	HCC-DRAFT-Statement-of-accounts-2020-21.pdf (hants.gov.uk)

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 disproportionately low.

2. Equalities Impact Assessment:

There are no new proposals in this report requiring an assessment.

[Date]

Ernst & Young
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Hampshire County Council ("the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Hampshire County Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any

significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [\[specify reasons for not correcting misstatement\]](#).

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

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

C. Information Provided and Completeness of Information and Transactions

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

- Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic
 3. We have made available to you all minutes of the meetings of the Council, Cabinet and and Audit Committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the *year* to the most recent meeting on the following date: *[list date]*.
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
 5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
 6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
 7. From the date of our last management representation letter (14 January 2021) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.

E. Going Concern

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

F. Subsequent Events

1. Other than described in Note [X] to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Use of the Work of a Specialist

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

I. Estimates

1. We confirm that the significant judgments made in making the valuation of investment properties, land and buildings and IAS19 pensions liability (the accounting estimates) have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
3. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out any specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the

effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

Retirement benefits

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

Yours faithfully,

Chief Financial Officer

Chairman of the Audit Committee

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Hampshire Pension Fund ("the Fund") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 01 April 2020 to 31 March 2021 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2021, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2020/2021 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

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

B. Non-compliance with laws and regulations including fraud

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
 3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
 4. We have made available to you all minutes of the meetings of Audit Committee and Pension Fund Advisory Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following: 29 September 2021
 5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
 6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
 7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
 8. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/2021
 9. From the date of our last management representation letter (29 January 2021) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

E. Going Concern

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

F. Subsequent Events

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

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and Annual Governance Statement within the Statement of Accounts,
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Independence

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

I. Derivative Financial Instruments

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

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

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

K. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied

by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

L. Use of the Work of a Specialist

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

M. Estimates

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

1. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
2. We confirm that the significant assumptions used in making the *accounting estimates* appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
4. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
5. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

Yours faithfully,

Chief Financial Officer

Chairman of the Audit Committee

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Audit Committee
Date:	29 September 2021
Title:	Treasury Management Mid-Year Monitoring Report 2021/22
Report From:	Director of Corporate Operations

Contact name: Gemma Farley

Tel: 03707 794704

Email: Gemma.farley@hants.gov.uk

Purpose of the report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function at the mid-year point.

Recommendation

2. The Audit Committee are asked to note the following recommendations that are being reported to Cabinet:
 - That the mid-year review of treasury management activities be noted.
 - That the clarification to the 2021/22 Treasury Management Strategy as set out in paragraph 36, for investments in un-rated corporations where the County Council owns a controlling interest in the corporation, is approved in line with previous years' strategies.

Executive Summary

3. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2021/22.

4. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full County Council in February 2021. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's treasury management strategy.
5. Treasury management in the context of this report is defined as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
6. This report sets out the performance of the treasury management function from the beginning of April to the end of August 2021, to include the effects of the decisions taken and the transactions executed.
7. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2021/22, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.
8. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by full County Council on 25 February 2021.

External Context

9. The following sections outline the key economic themes against which investment and borrowing decisions have been made so far in 2021/22.

Economic commentary

10. The coronavirus pandemic continued to dominate the news during the period, with economic resurgence following the initial rapid vaccination programme.
11. The Bank of England (BoE) has held Bank Rate at 0.1% since March 2020 and has maintained its Quantitative Easing programme at £895bn since November 2020. The BoE expects the economy to experience a temporary

period of strong Gross Domestic Product (GDP) growth and above-target Consumer Price Index (CPI) inflation, after which growth and inflation is expected to fall back. There were, however, two-sided risks around this central path, and it is possible that near-term upward pressure on prices could prove somewhat larger than expected. The BoE's Monetary Policy Committee (MPC) does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating the economy's spare capacity and achieving the 2% inflation target sustainably.

Financial markets

12. Ongoing monetary and fiscal stimulus together with improving economic growth prospects and successful vaccine rollout programmes continued to boost equity markets over the period. In the UK, the FTSE 250 index was back above pre-pandemic levels and the more internationally focused FTSE 100 had recouped around 75% of 2020's losses.
13. Inflation worries continued during the period but declines in bond yields between April and June suggest bond markets may be expecting any general price increases to be less severe, or more transitory, than was previously thought. UK government bonds remained positive but sold off over the period.

Credit review

14. Credit default swap spreads were relatively flat over the period and remained only slightly above their pre-pandemic levels. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks.
15. There were only a small number of credit rating actions over the period including Fitch revising the United Kingdom's outlook to stable from negative, and S&P upwardly revising the outlooks for a number of UK and European banks from negative to stable, or in the case of Barclays and Nationwide from stable to positive.
16. The successful vaccine rollout programme is credit positive for the financial services sector in general, but there remains uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to the pandemic and the effects of lockdowns and restrictions. This uncertainty means the County Council's treasury management advisors, Arlingclose, continue to recommend maximum durations of 35 days for unsecured investments with banks and building societies on their list of recommended counterparties.

Local Context

17. On 31 March 2021, the County Council's underlying need to borrow for capital purposes was £776.46m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £877.8m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	31/03/21 Balance £m
CFR	776.46
Less: Other debt liabilities*	(141.47)
Borrowing CFR	634.99
External Borrowing	(300.77)
Internal Borrowing	334.22
Less: Usable Reserves	(754.85)
Less: Working Capital	(122.91)
Net Investments	(543.54)

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

18. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as at 31 August 2021 and the movement since 31 March 2021 are shown in Table 2.

Table 2: Treasury management summary	31/03/21 Balance £m	Movement £m	31/08/21 Balance £m	31/08/21 Rate %
Long-term borrowing	(249.3)	2.1	(247.2)	4.65
Short-term borrowing	(8.5)	(1.5)	(10.0)	5.75
Total borrowing	(257.8)	0.6	(257.2)	4.70
Long-term investments	259.9	(24.8)	235.1	1.50
Short-term investments	194.7	229.2	423.9	0.15
Cash and cash equivalents	112.5	(101.6)	10.9	0.00
Total investments	567.1	102.9	669.9	1.65
Net investments	309.3	103.4	412.7	

Note: the figures in Table 2 at 31 March 2021 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments. Borrowing figures exclude short term balances held on behalf of others. For these reasons Net investments in Table 2 differs from Table 1.

19. The increase in net investments of £103.4m shown in Table 2 reflects a large increase in total investments as well as a reduction in total borrowing. The reduction in total borrowing of £0.6m reflects the repayment of debt in line with scheduled timescales. The increase of £103.4m of investments reflects the higher balances typically seen at this time of year, due to the difference in timing between income and expenditure; investment balances have also been impacted by the fact that it is near to the half-way point of the three-year period that the County Council pre-paid Pension Fund contributions for, and so it is expected that underlying core balances will continue to rise until the end of this three-year period.

Borrowing Update

20. Local authorities can borrow from the Public Works Loan Board (PWLB) provided they have not purchased an investment asset primarily for yield since 26 November 2020 and can confirm they are not planning to do so in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 / Section 95 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.
21. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
22. The County Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to fully access the PWLB if required, however there are no plans to take out any new long-term external borrowing.

Borrowing Activity

23. At 31 August 2021 the County Council held £257.2m of loans (a decrease of £0.6m since 31 March 2021) as part of its strategy for funding previous years' capital programmes. The mid-year treasury management borrowing position and movement since 31 March 2021 are shown in Table 3.

Table 3: Borrowing position	31/03/21 Balance	Net movement	31/08/21 Balance	31/08/21 Weighted average rate	31/08/21 Weighted average maturity
	£m	£m	£m	%	(years)
Public Works Loan Board	(216.5)	0.5	(216.0)	4.74	10.32
Banks (LOBO)	(20.0)	-	(20.0)	4.76	11.96
Other (fixed term)	(21.3)	0.1	(21.2)	4.16	18.38
Total borrowing	(257.8)	0.6	(257.2)	4.70	11.11

Note: the figures in Table 3 at 31 March 2021 are from the balance sheet in the County Council's statement of accounts but adjusted to exclude short term balances held on behalf of others, and accrued interest.

24. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the County Council's long-term plans change is a secondary objective.
25. Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing. In line with this strategy, £0.5m of PWLB loans and £0.1m of Salix loans were allowed to mature without refinancing. Salix loans represent Government funding given to improve energy efficiency, reduce carbon emissions and lower energy bills.
26. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the County Council to reduce borrowing costs (despite foregone investment income) and reduce overall treasury risk.
27. The County Council continues to hold £20.0m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender during the period.

Treasury Investment Activity

28. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the five-month period from 1 April to 31 August 2021, the County Council's investment balances ranged between £562m and £769m due to timing

differences between income and expenditure. The investment position as at 31 August 2021 and the change since 31 March 2021 are shown in Table 4.

Table 4: Treasury investment position	31/03/21 Balance £m	Net movement £m	31/08/21 Balance £m	31/08/21 Income return %	31/08/21 Weighted average maturity (years)
Short term investments					
Banks and building societies:					
- Unsecured	69.5	45.1	114.6	0.06	0.06
- Secured	10.7	111.2	121.9	0.13	0.63
Government:					
- Local authorities	139.0	(2.0)	137.0	0.49	0.50
- UK treasury bills	0.0	15.0	15.0	0.05	0.15
- UK Gilts	0.0	20.0	20.0	0.03	0.02
Money market funds	78.0	(74.2)	3.8	0.02	0.00
Cash plus funds	10.0	-	10.0	0.79	0.01
	307.2	115.1	422.3	0.23	0.38
Long term investments					
Banks and building societies					
- Secured	20.0	12.5	32.5	0.20	1.16
Government:					
- Local authorities	35.0	(25.0)	10.0	0.71	1.18
	55.0	(12.5)	42.5	0.47	1.34
Long term investments – higher yielding strategy					
Government:					
- Local authorities	21.7	0.2	21.9	4.38	11.99
Pooled funds:					
- Pooled property*	75.0	-	75.0	4.18	N/A
- Pooled equity*	50.0	-	50.0	6.08	N/A
- Pooled multi-asset*	48.0	-	48.0	4.66	N/A
	194.7	0.2	194.9	4.81	11.99
Total investments	556.9	102.8	659.7	1.59	0.72
Thames Basin Heaths pooled fund investments	10.2	0.0	10.2		
Total	567.1	102.8	669.9		

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 June 2021 based on the market value of investments 12 months earlier.

Note: the figures in Table 4 at 31 March 2020 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

29. The County Council made a payment of £226.7m on 1 April 2020 to prepay its employer's LGPS pension contributions for a period of three years. By making this payment in advance the County Council was able to generate an estimated saving of £9m over 3 years on its pension contributions. It is expected that cash balances will steadily increase over this three year period in addition to the normal cash movements due to timing differences between income and expenditure.
30. Investment balances have subsequently increased and were £102.8m higher at 31 August 2021 in comparison to the position at 31 March 2021. This is in part explained by the County Council not having to make monthly employer's pension contributions in 2021/22 (having already paid in advance) and the balance of grants received but not yet applied. The impact of the coronavirus pandemic has created significant uncertainty, resulting in the need for significant assumptions within financial forecasts and a difference in timing between income and expenditure, both in terms of the direct response to the pandemic and in carrying out regular service delivery plans.
31. The CIPFA Code and government guidance both require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income. The County Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.
32. The security of investments has been maintained by following the County Council's counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The County Council invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.
33. In delivering investment returns, the County Council has operated against a backdrop in which the UK Bank Rate was cut to 0.10% in March 2020 in response to the coronavirus pandemic. UK Bank Rate has remained at this rate, having an impact on rates across the market. Returns had been at or around 0% for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management Account Deposit Facility (DMADF) and have not been significantly higher for

other short-term options like fixed duration loans to other local authorities and bank notice accounts. Investment income has therefore largely come from investments arranged at fixed rates of interest prior to the pandemic and through the County Council's investments in pooled funds.

34. The County Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients on a quarterly basis. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 June 2021 and at 31 March 2021 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	Credit rating	Bail-in exposure	Weighted average maturity (days)	Rate of return
		%		%
31.03.2021	AA-	40	393	0.50
30.06.2021	AA-	34	345	0.39
Similar LAs	AA-	45	1,101	0.30
All LAs	A+	67	12	0.11

35. Table 5 shows the average credit rating of the portfolio has remained consistent over the three-month period, whilst bail-in exposure has reduced, as the County Council held a greater investment balance in secured bank bonds, which are not subject to bail-in risk as they provide collateral. The weighted average maturity of investments was lower due to the increase in total investment balance being held in short-term investment options, ensuring that funds will be available as required. In addition, there were timing differences between receiving and spending of Covid grants. The average rate of return (0.39%) was lower than at 31 March 2021, but with the benefit of higher rates for fixed investments made prior to the pandemic helping to offset returns at or close to 0% for many investments across the market. The County Council compared favourably with the other local authorities included in the benchmarking exercise across all metrics.
36. The County Council's Treasury Management Strategy (TMSS) for 2020/21 and prior, contained a clause that the County Council could invest in an un-rated corporation where it owns a controlling interest in the corporation, in which case a limit of £35m for an investment of up to 20 years will apply. This was unintentionally not included in the 2021/22 TMSS, and it is therefore recommended that this clause is reinstated for the continuity of this policy.

Externally managed pooled funds

37. In 2019 the County Council agreed to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. This allocation was recently increased to £250m as part of the Capital and Investment Strategy for 2021/22 and the approach to investing this allocation was most recently set out in the Treasury Management Strategy Statement for 2021/22.
38. Approximately £205m of this allocation has now been invested, with the remaining balance earmarked. The total includes £10.4m invested on behalf of the Thames Basin Heaths Joint Strategic Partnership Board (TBH JSPB), where the County Council acts as the administrative body. Any investments made from cash held on behalf of the TBH JSPB are made with the agreement that the TBH JSPB has received its own financial advice and assumes all risks associated with these investments.
39. The CIPFA Code requires the County Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the County Council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the County Council's investments.
40. The County Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well reflecting improved market sentiment. These investments are now worth more in aggregate than the initial sums invested, as shown in Table 6, demonstrating the importance of taking a longer term approach and being able to ride out periods of market volatility, ensuring the County Council is not a forced seller at the bottom of the market. Table 6 also shows the County Council's investments in fixed deposits which include long term loans to other local authorities and as part of the Manydown programme.

Table 6: High yielding investments – market value performance	Amount invested*	Market value at 30/06/21	Gain / (fall) in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Pooled property funds	75.0	77.2	2.2	4.4
Pooled equity funds	50.0	50.8	0.8	8.6

Pooled multi-asset funds	48.0	48.7	0.7	3.0
Total pooled funds	173.0	176.7	3.7	16.1
Fixed deposits	21.9	21.9	0.0	0.0
Total higher yielding	194.9	198.5	3.7	16.1

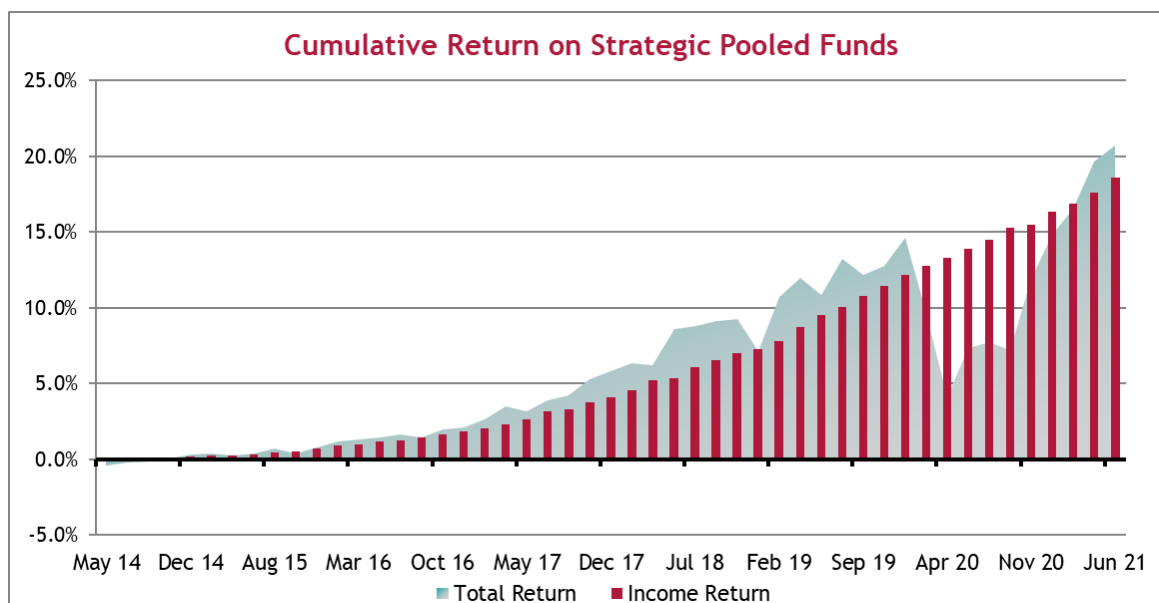
* excludes £10.4m invested on behalf of Thames Basin Heaths JSPB

41. The County Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.40% pa (per annum) since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 20.73%.

Table 7: High yielding investments – income and total returns since purchase	Annualised income return	Total return
	%	%
Pooled property funds	4.11	23.96
Pooled equity funds	4.99	22.35
Pooled multi-asset funds	4.30	14.03
Total pooled funds	4.40	20.73

Note: excludes the performance related to £10.4m invested on behalf of Thames Basin Heaths JSPB.

42. The County Council's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments and in line with the County Council's agreed objective of targeting income of 4% pa from its higher yielding strategy.
43. The cumulative total return from the County Council's investments in pooled equity, property, and multi-asset funds since purchase is shown in the following graph. This highlights that the County Council has benefited from strong and steady income returns over time and the way that capital values have recovered since March 2020.



Note: the graph above excludes the performance related to £10.4m invested on behalf of Thames Basin Heaths JSPB.

44. The County Council is aware of the risks involved with investing in pooled funds that hold underlying investments in bonds, equities, property and other financial instruments. As a result, when the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £6.25m which equates to 2.5% of the total earmark of £250m.
45. In addition to the risk of realising a capital loss, the IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five year statutory override was put in place for local authorities that exempts them from complying with this requirement.
46. Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the County Council's investment objectives is monitored regularly and discussed with Arlingclose.

Non-Treasury Investments

47. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in Ministry of Housing, Communities and Local Government's Investment Guidance, in which the definition of investments is

further broadened to also include all such assets held partially for financial return.

48. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.
49. The County Council's existing non-treasury investments are listed in Table 8.

Table 8: Non-Treasury Investments	31/08/21 Asset value £m	31/08/21 Rate %
Loans to Hampshire based business	9.5	4.00
Joint venture recruitment agency	0.2	5.00
Total	9.7	4.02

Compliance Report

50. The County Council confirms compliance of all treasury management activities undertaken during the period covered by this report with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.
51. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 9.

Table 9: Debt Limits	2021/22 Maximum £m	31/08/21 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied?
Borrowing	258	257	740	810	✓
PFI and Leases	141	141	140	170	✓
Total debt	399	398	880	980	✓

52. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Although PFI and Leases debt has been above its Operational Boundary during 2021/22 to date by a minimal amount, total debt has been well below the total Operational Boundary for the entire period. It is expected that the PFI and Leases debt will fall below its Operational Boundary by 31 March 2022 following the next payment, and there are no plans for any increase in PFI liabilities.

Treasury Management Indicators

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

Interest rate exposures

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

Table 10: Interest rate risk indicator	31/08/21 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates		
Investment	£462m	+/- £4.6m
Borrowing	£10m	+/- £0.1m

55. Fixed rate investments and borrowings are those where the rate of interest is fixed for a year. Instruments that mature within the year are classed as variable rate.

Maturity structure of borrowing

56. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 11: Refinancing rate risk indicator	31/08/21 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	4%	50%	0%	✓
12 months and within 24 months	2%	50%	0%	✓
24 months and within 5 years	11%	50%	0%	✓
5 years and within 10 years	21%	75%	0%	✓
10 years and within 20 years	52%	75%	0%	✓
20 years and within 30 years	9%	75%	0%	✓
30 years and above	0%	100%	0%	✓

57. 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 as set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. If not repaid before maturity, these loans have an average maturity date of 12 years (minimum 6 years; maximum 24 years).

Principal sums invested for periods longer than a year

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

Table 12: Price risk indicator	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£235m	£205m	£205m
Limit on principal invested beyond year end	£350m	£330m	£300m
Complied?	✓	✓	✓

59. The table includes investments in strategic pooled funds of £183m as although these can usually be redeemed at short notice, the County Council and Thames Basin Heaths intend to hold these investments for at least the medium-term.

CIPFA consultations

60. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. The revised codes are yet to be released, however CIPFA have released feedback documents following the February 2021 consultations, and the expected changes for the Codes are listed in the following paragraphs.

Prudential Code

61. The new Prudential Code is expected to add clarification and definitions for commercial activity and investment, and state that an authority must not borrow to invest for the primary purpose of commercial return.
62. The Prudential Code is expected to include the acceptable reasons to borrow money:
- financing capital expenditure primarily related to delivering a local authority's functions,
 - temporary management of cash flow within the context of a balanced budget,

- iii. securing affordability by removing exposure to future interest rate rises and
 - iv. refinancing current borrowing, including replacing internal borrowing.
63. In addition, proportionality will be included as an objective, and so will include new indicators for net income from commercial and service investments to net revenue stream. There will also be a specific objective around commercial investment with the intention of embedding good practice across authorities.

Treasury Management Code

64. The new Treasury Management Code is expected to seek to strengthen decision making by including the liability benchmark as a mandatory treasury indicator. A treasury management knowledge and skills framework will also be implemented to improve knowledge in a specialist area. In addition CIPFA is expected to incorporating Environmental, Social and Governance (ESG) issues as a consideration within TMP (Treasury Management Practice) 1 Risk Management.

Arlingclose's outlook for the remainder of 2021/22

65. The medium-term global economic recovery has continued with the reopening of economies and most look set to grow at a decent pace. Recovery in world demand has been more highly concentrated in goods than in services. The UK has continued to benefit from its initial rapid vaccine rollout, which appears to have weakened the link between infections and hospitalisations.
66. The re-opening the UK economy will result in improved GDP in Quarters 2 3 although the 'pingdemic' in June and July will have restrained activity a little and exacerbated labour shortages. The more upbeat assessment is that GDP will return to its pre-Covid peak by the end of December 2021 but will be predicated on the extent and speed with which households and businesses normalise their spending and activity during the remainder of the year.
67. Inflation rose to 2.5% in June. Alongside the increase in commodity and energy prices, supply and transportation bottlenecks and the boost in prices from the lifting of restrictions, the MPC has acknowledged the potential of CPI rising to around 4% in Quarter 4 2021. However, the transitory factors affecting inflation including the low base effect of 2020 are expected to unwind over time; expectations for medium-term inflation are not elevated.

68. There is uncertainty over the size and pace of change in the labour market as companies to adjust their staffing levels and new hires to post-Covid demand and working arrangements. The number of furloughed jobs has declined and the scheme ends in September 2021.
69. Government bond yields declined after rising earlier in the year as the prospect of imminent higher policy rates receded - the Delta variant increased concerns that the pandemic will dampen confidence and weigh on growth for longer than previously expected. Some upward pressure on gilt yields could remain in the short term due to the variability of data.
70. Policymakers have begun signalling their intention of higher policy rates, albeit not just yet. At its August 2021 meeting, the MPC indicated that some modest tightening of monetary policy over the 3-year forecast period was likely to be necessary to mitigate inflation risks. At its June 2021 meeting, the majority of members of the US Federal Open Market Committee (FOMC) expected to increase the US federal funds rate (current range 0%-0.25%) twice by the end of 2023.
71. Arlingclose expects Bank Rate to remain at the current 0.10% level. Arlingclose believe the risk of movement in the immediate term remains low, although the risks over the MPC's 3-year horizon have increased and are leaning to the upside.
72. Gilt yields have fallen recently, but volatility is likely given the uncertainties over the economic outlook and central bank asset purchase programmes.
73. Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.
74. Downside risks remain – the risk of further virus mutations including the Delta variant could destabilise the recovery. Downside risks also arise from potential future vaccine shortages as the demand for vaccines increases.

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Official Bank Rate													
Upside risk	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.10	-0.10	-0.10	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15

Consultation, Equalities and Climate Change Impact Assessment

75. This report deals with the treasury management mid-year position for 2021/22, which is within year reporting matter and therefore no consultation or Equality Impact Assessments are required.

76. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
77. This report deals with the outturn position for the treasury management aspect of the County Council's business. In line with the CIPFA code, the County Council's treasury management investment balances are invested prioritising security, liquidity and then yield. The County Council's investments in pooled funds, which include investments in equities and bonds issued by a number of companies with exposures to a variety of issues, including those associated with Climate Change. All of the County Council's pooled funds are managed by investment managers who are signatories to the PRI (Principles for Responsible Investment), managing investments in line with their own individual responsible investment policies. The County Council's Treasury Management Advisers, Arlingclose, have advised the County Council on the suitability and selection of its pooled funds, including the investment managers' management of Environmental, Social and Governance (ESG) issues including the impact of Climate Change.
78. There are no further climate change impacts as part of this report which are concerned with financial reporting.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:

<u>Title</u>	<u>Date</u>

Direct links to specific legislation or Government Directives

<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

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

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 disproportionately low.

2. Equalities Impact Assessment:

Equalities objectives are not expected to be adversely impacted by the proposals in this report.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee:	Audit Committee
Date:	29 September 2021
Title:	Annual Governance Statement
Report From:	Head of Law and Governance and Director of Corporate Operations

Contact name: Barbara Beardwell

Tel: **Email:** Barbara.beardwell@hants.gov.uk

Purpose of this Report

1. The purpose of this Report is to seek the Audit Committee's approval of the Annual Governance Statement for 2020-21

Recommendation(s)

2. That the Audit Committee approve the 2020-21 Annual Governance Statement.

Executive Summary

3. Annex 1 to this Report contains the draft Annual Governance Statement for the year ending 31 March 2021. Pursuant to the Accounts and Audit Regulations 2015, the Annual Governance Statement must be approved by the Audit Committee in order for it to accompany the signed and dated Statement of Accounts. The Annual Governance Statement must subsequently be signed by the Leader of the County Council and the Chief Executive.

Contextual Information

4. The County Council is required pursuant to the Accounts and Audit (England) Regulations 2015 to produce a broad-based Annual Governance Statement.

- 4.1. Once approved by this Committee the Annual Governance Statement must be signed on behalf of the County Council by the Leader of the Council and the Chief Executive.
- 4.2. The Annual Governance Statement is an important and integral part of the County Council's Corporate Governance regime.
- 4.3. The Annual Governance Statement provides a review of the effectiveness of the County Council's internal control systems and gives assurances about how effectively they operate.
- 4.4. Guidance supplied by the Chartered Institute of Public Finance Accountancy (CIPFA) has been considered in the preparation of the draft Annual Governance Statement.

Methodology

5. In early 2021 departmental assurance statements were sent out to all departments seeking assurances about departmental governance arrangements.
- 5.1. In March 2021 Officers performing key corporate roles on behalf of the County Council were asked to produce an appropriate position statement based on the CIPFA guidance.
- 5.2. A copy of the emerging Annual Governance Statement has been sent to all Chief Officers, officers undertaking key corporate roles on behalf of the County Council and the Leader of the County Council for comment. The comments received have been considered in preparing the draft Annual Governance Statement in Annex 1.

Draft Annual Governance Statement

6. The content of the draft Annual Government Statement follows the CIPFA guidance and has been prepared in relation to the County Council's Code of Corporate Governance. Members of this Committee now have the opportunity to comment upon it and to indicate whether or not they wish to see any amendments made.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

The preparation and approval of an Annual Governance Statement is a Statutory Requirement.

Other Significant Links

Links to previous Member decisions:

<u>Title</u>	<u>Date</u>

Direct links to specific legislation or Government Directives

<u>Title</u>	<u>Date</u>
Accounts and Audit (England) Regulations	2015

Section 100 D - Local Government Act 1972 - background documents

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

<u>Document</u>	<u>Location</u>
Delivering Good Governance in Local Government 2016 Edition	
Departmental Assurance Statements	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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

**ANNUAL GOVERNANCE STATEMENT
2020/2021**

FOR

HAMPSHIRE COUNTY COUNCIL

AND

HAMPSHIRE PENSION FUND

Annual Governance Statement for Hampshire County Council and Hampshire Pension Fund

1. Scope of Responsibility

Hampshire County Council is responsible for ensuring that:

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

These responsibilities also extend to the administration of the Hampshire Pension Fund, which is undertaken by the Pension Fund Panel and Board. The combined Panel and Board is responsible for investment, management and governance of the Fund. This Statement explains how the County Council has complied with the Code and meets with the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement during 20120-2021.

2. The purpose of Corporate Governance

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

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

The governance framework has been in place at Hampshire County Council for the year ending 31 March 2021 and up to the date of approval of the annual report and the statement of accounts.

The County Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE

Framework 'Delivering Good Governance in Local Government'. A copy of the Code is available on the County Council's Web site at:

[Code of Corporate Governance](#)

3. Core Principles of good governance

3.1 Behaving with Integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- 3.1.1 The County Council's Constitution is founded on it operating in an open and transparent way, and for the Leader of the County Council and the Chief Executive to set the tone for the organisation by creating a climate and culture of openness, support, and respect.
- 3.1.2 The County Council is committed to the highest ethical standards and has adopted a governance framework to re-enforce this philosophy as well as procedures to investigate any issues should the need arise. The framework, policies and procedures are set out in the County Council's Code of Corporate Governance which was adopted by the County Council during 2016-17. The Code of Corporate Governance demonstrates a comprehensive commitment on the part of the County Council to integrity, ethical values and the rule of law.
- 3.1.3 Officers from Legal Services and Governance monitor new legislation with the assistance of on-line resources and provide an effective mechanism for tracking new legislation and ensuring that the County Council is taking appropriate steps to implement it.
- 3.1.4 Covid 19 Specific legislation has been reviewed by senior officers in Legal Services who have worked closely with Departments on the implementation of the relevant provisions.
- 3.1.5 An interim Decision-Making Protocol was prepared and agreed with Cabinet and the Corporate Management Team to facilitate urgent decision making in the initial phases of the response to Covid 19. The Protocol utilised the existing delegated authority of Chief Officers to take a wide range of decisions and ensured that relevant Members were fully sighted on and endorsed relevant decisions. The power for the County Council's Chief Financial Officer to make urgent financial decisions was also utilised with those decisions being reported to Cabinet as provided for in the Constitution.
- 3.1.6 The County Council further strengthened the arrangements governing work to advance inclusion and diversity across the Authority and its services, extending this to encompass wellbeing. In addition to a Steering Group, chaired by the Chief Executive, and an Operational Forum, bringing together Equalities Leads and Champions, several new groups have been established. These include a Group chaired by the Assistant Director – HR and OD to oversee the County Council's formal staff networks and a new Wellbeing Task Group, focused on driving forward work to improve employee wellbeing. In addition, Inclusion Sponsors have been identified within each department. These Senior Offices play an important role in strengthening the County Council's external facing inclusion work, ensuring

improvement actions are embedded within departments and empowering staff at all levels to contribute to this agenda.

- 3.1.7 A strategic work programme is in place which demonstrates how the County Council is delivering against its Equality Objectives. This is informed by staff feedback and the results of external assessment against the National Inclusion Standard, undertaken by Inclusive Employers. The County Council received *Bronze* award following its 2019 assessment, ranking top of the category and third overall. The work programme is reported against on a quarterly basis to the Steering Group, and bi-annually to the Corporate Management Team and Cabinet. This activity enables the County Council to meet, and go beyond, its statutory obligations under the Equalities Act.

3.2 Ensuring openness and comprehensive stakeholder engagement.

- 3.2.1 The County Council's Corporate Strategy – the *Serving Hampshire* Strategic Plan - contains clear strategic aims which are communicated on the County Council's website and through various communications. The Plan provides an operating model for business planning and is informed by various departmental and partnership strategies and priorities. A revised Strategic Plan for the period 2021-2025 will be agreed by the new Administration, following the elections in May 2021.
- 3.2.2 Clear guidance and protocols on decision making, effective arrangements for the approval of exempt reports and easy to use templates for decision reports and records ensure that the County Council takes decisions in public when appropriate and after a full consideration of relevant factors. Details of the framework relevant to decision making is set out in the Corporate Governance Framework.
- 3.2.3 Public consultation and engagement to inform decision making is undertaken in accordance with the County Council's Consultation Policy, which includes five principles of consultation setting out when and how the County Council will consult the public. Significant and statutory consultation is supported by the County Council's Insight and Engagement Unit, which operates within the Market Research Society's ethical Code of Conduct.
- 3.2.4 The results of all significant consultations are presented at the relevant decision-making forum to demonstrate how participants' views have been considered.
- 3.2.5 Consultation methodology is based on stakeholder analysis and equality impact assessment, undertaken at the outset of planning any engagement. This informs the best approach to reaching the target audience, including those who may be harder to engage. Alongside more traditional forms of engagement, such as surveys, the County Council employs creative tools and techniques where appropriate to engage different audiences. For example, Easy Read versions of surveys are now provided online as standard, as well as in hard copy. Digital platforms, such as Facebook Live, are also being used to engage younger audiences and those who may find it more difficult to attend focus groups in-person. A regular residents' survey- 'Hampshire Perspectives' – has also been established in 2020, supporting

the County Council's insight into residents' opinions to inform its COVID-19 Recovery Strategy. This tool will continue to be used post-pandemic.

- 3.2.6 The County Council also regularly undertakes organisation-wide staff surveys on priority topics (e.g. inclusion and diversity; health and wellbeing) as part of a broader programme of employee engagement through a wide range of platforms and channels. Furthermore, a new Staff Wellbeing 'Pulse' survey was established this year, supporting the County Council in its ongoing monitoring of staff health and wellbeing levels. This is underpinned by a new set of agreed principles for encouraging and undertaking staff engagement across departments, approved by the Corporate Management Team.
- 3.2.7 Each financial year, an annual report on the Pension Fund is prepared for the Fund's employers to consider at an Annual Employers Meeting to be held by 31 October in the next financial year. The report covers the Fund's accounts, investment arrangements and policy, investment performance, scheme changes and other issues of current interest.
- 3.2.8 The Investment Strategy Statement is published and made available to scheme employers within three months of any amendments.
- 3.2.9 Annual benefit statements are provided to contributors and deferred pensioners, together with an annual newsletter to pensioners.

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

- 3.3.1 The strategic aims set out in the *Serving Hampshire* Strategic Plan include a description of the County Council's overarching ambitions for delivering positive economic, social and environmental outcomes for Hampshire. These aims are underpinned by a series of key priorities, which reflect, and are supported by, other detailed departmental plans and strategies. Progress against the strategic aims and priorities is tracked through quarterly performance updates to the County Council's Corporate Management Team and six monthly to Cabinet. Arrangements for reporting corporate performance are set out in the County Council's Corporate Performance Management Framework. All reports to decision making bodies must also demonstrate their link to the *Serving Hampshire* Strategic Plan, as well as the results of the relevant impact assessments.
- 3.3.2 The Strategic Plan is currently being revised and will be approved by the new Administration following the May 2021 election. This will be accompanied by a new Corporate Performance Management Framework, which is being reviewed to ensure it incorporates monitoring of the agreed Climate Change Strategy and the recommendations from the Hampshire 2050 Commission of Inquiry.

- 3.4 Determining the interventions necessary to optimise the achievement of the intended outcomes.**
- 3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decisions of the County Council ensures that decisions are only made after relevant options have been weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.
- 3.4.2 The Deputy Chief Executive and Director of Corporate Resources advises the Pension Fund Panel and Board and its Responsible Investment sub-committee on all Pension Fund investment and administrative matters.
- 3.4.3 The Pension Fund's independent adviser advises the Panel and Board on investment matters.
- 3.4.4 The Pension Fund Panel and Board uses the Fund's actuary and other consultants as necessary, for advice on matters when in-house expertise is not available. The Panel and Board takes advice from the actuary, the Fund's investment managers or specialist consultants or advisers as required on allocating assets and investment return targets.
- 3.4.5 Equality Impact Assessments (EIAs) are used throughout the organisation to assess the impact of service proposals and to inform decision making. A review group comprising the Head of Legal, Head of Finance, Corporate Equalities Lead and Assistant Chief Executive undertake periodic cumulative EIAs to understand the overall impact of service proposals on groups with characteristics protected under the Equalities Act (2010).
- 3.4.6 The budget setting process is well established, and Departments prioritise budgets and spending in order to achieve intended outcomes. In recent years the budget setting process has inevitably focussed on the achievement of savings to offset the increased costs of pay and price inflation and growth in social care services, but this aims to be achieved whilst remaining true to the Council's strategic aims and objectives. This includes the consideration of the wider social value that the County Council can generate through its operations.
- 3.4.7 A medium-term financial strategy and three-year capital programme is updated each year together with relevant resource forecasts and takes full account of the changing regulatory, environmental, demographic and economic factors that impact on the financial environment in which the County Council operates. The absence of a multi-year financial assessment has made financial planning difficult, but the County Council continues to plan for the longer term in line with previous MTFS assumptions.
- 3.4.8 Risks associated with the achievement of intended outcomes are detailed in Risk Registers held at Corporate, Department and project level. These evaluate the effectiveness of existing control measures as well as identifying proposed mitigation. Corporate and departmental risk registers have been reviewed and updated. These risk registers are regularly reviewed by the Corporate Risk Management Board, with key risks being reported to CMT.

- 3.4.9 The Reading Hampshire Property Partnership Limited (RHPP) is a public to public partnership arrangement between Hampshire County Council (HCC) and Reading Borough Council (RBC) for the delivery of property related services. The RHPP was formally established as a limited company in April 2014 and is operated in accordance with the Companies Act 2006. Two named senior officers from each partner organisation are appointed to the roles of Directors of the RHPP and the Board of Directors meets formally twice a year. The RHPP accounts are filed with Companies House and appropriate insurance is held to cover risks. Within HCC, an update on the RHPP is provided to the Buildings Land and Procurement Panel on an annual basis.
- 3.4.10 The governance of *Connect2Hampshire* is underpinned by the LLP Members agreement, which sets out in detail the management arrangements for the joint venture through its Board and Executive Board. The membership of these boards includes the Deputy Chief Executive and Director of Corporate Resources as one of the two LLP Board Members, as well as a further Senior Officer of the County Council as a Member of the Executive Board. This enables the County Council's interests to be fully represented within the decision making of the LLP, as well as ensuring the successful performance of the LLP to meet the County Councils broader workforce objectives. The Boards responsibilities include agreement of the annual business plan, understanding the LLPs performance against this plan, and the management and oversight of potential emerging risks and issues. The expected levels of service performance are set out within a separate Joint Accountability Statement agreed between HCC and the LLP, with performance against defined Key Performance Indicators being reviewed on a quarterly basis through meetings held between Connect2Hampshire and Senior Officers of the County Council. Clear routes of escalation exist through to HCC's Corporate Management Team, should this be required.
- 3.4.11 Further details of the County Council's response to the Covid 19 Crisis are set out in a series of reports to Cabinet set out in the Schedule to this Statement.

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

- 3.5.1 The relationship between Members and Officers is led by the Leader of the Council and the Chief Executive who have established a culture of mutual respect and co-operation. The role of the Chief Executive is set out in the County Council's Constitution and is well understood by the Members of the County Council. The Protocol for Member Officer Relations also provides clear guidance for both officers and Members on how to manage their relationships effectively.
- 3.5.2 The County Council has a well-established cross-party forum, the Member Development Group that supports and oversees the development of Members to support them in carrying out the responsibilities of their role. This is delivered informally, and via internal and external seminars and courses. The established monthly Briefing Programme continues to be well received and to ensure continuance during Covid-19, the programme has

been successfully delivered virtually via MS Teams. The programme has included annual corporate topics such as finance, treasury management and the County Council's workforce which has been supplemented by Covid-19 updates from the Chief Executive and Corporate Management Team. Development of e-learning modules for Members has progressed well in readiness for the Council's Member Induction Programme that will follow the Elections on 6 May 2021. These resources will also be available for new Members joining the County Council following a By-Election and as a refresher training resource.

- 3.5.3 Members of the Joint Pension Fund Panel and Board and officers in Corporate Services have opportunities to attend training courses and seminars on pension fund matters, when necessary and appropriate.
- 3.5.4 A training plan for members of the Joint Pension Fund Panel and Board has been prepared, and training logs for individual members are maintained.
- 3.5.5 The County Council regularly reviews the shape of its workforce against the needs of the service in the context of its capacity and capability requirements. This then informs a range of strategies, for example, recruitment, retention, operating models, ways of working and people development to provide effective leadership and deploy appropriate resources to meet the needs of services. In addition, each Department has a Workforce Strategy that aligns the strategic objectives of the services delivered with strategic workforce requirements.
- 3.5.6 This year the Annual Workforce Report was re-designed to provide a more in-depth understanding of our people in relation to the various stages of the 'employee life-cycle' (Attract, Resource, Onboard, Develop, Reward and Recognise, Progress and Perform, Retain and Exit). 2020/21 was also the first year that we produced an Interim Workforce Report at the mid-year point which in light of current events, focused predominantly on the impact of COVID-19 on our workforce.
- 3.5.7 The Council's Valuing Performance policy provides a framework for staff and managers to meet, discuss and set goals in line with service requirements, following which regular reviews of performance, learning and progress takes place. Staff continue to be held accountable for their own and their teams' performance and are encouraged to use the range of learning opportunities that are available across the Council.
- 3.5.8 The Council has a thorough management and leadership development program available both for existing leaders as well as those identified as 'high potential'. These leadership programs are underpinned by a leadership competency framework.
- 3.5.9 Despite a brief pause in delivering of our leadership programmes in the first lockdown, our programmes have otherwise been converted to the 'virtual classroom' so that learning could continue.
- 3.5.10 Organisational development is approached through a variety of means including through regular joint Corporate and Departmental Management discussions. Lessons learnt exercises are regular practiced where

necessary and appropriate and are undertaken through a 'system wide' perspective. On the back of engagement principles agreed in 2019/20 a further set of 'organisational' principles have been agreed towards the end of 2020/21 to support anticipated organisation design and development as a consequence of our experiences over the past 12 months.

- 3.5.11 There is an emphasis on the need for high performance and resilience, of which health and wellbeing and continuous development are critical elements in the regular discussions between managers and staff particularly during the period of extended home working for many staff groups. This has been further supported by the development of a broad suite of well-being resources that have been made available to all staff and well-being has been regular part of CMT and emergency planning meetings such as GOLD, SILVER and BRONZE.
- 3.5.12 To further support our understanding of our workforce's experiences during these unprecedented times, two formal staff surveys were deployed, one in June and the second in October. These focused on the needs of staff both in practical terms and in terms of physical and mental health and wellbeing. It was as a consequence of these surveys that we were able to respond with the issuing of equipment for staff working from home and to develop the wellbeing resources available to staff based on the needs emerging from the surveys.
- 3.5.13 Further to this a monthly wellbeing pulse survey has been deployed over the second half of 2020/21 to ensure that we can monitor how are staff are feeling and consider support as might be necessary.
- 3.5.14 The Wellbeing Task Group, chaired by the Director of Public Health and Assistant Director of HR and Workforce Development, with actions embedded within the overarching strategic Inclusion, Diversity and Wellbeing work program have continued to lead in this space alongside representatives from all Departments.
- 3.5.15 The County Council recognises the importance of its staff networks to supporting the inclusion and diversity of its workforce and during the course of 2020/21 the number of staff networks rose from three to four with the introduction of a Carers and Working Parents Network. All formal networks continue to have action plans in place, which align with and support the strategic Inclusion, Diversity and Wellbeing work programme. Of specific note during 2020/21 is the work undertaken in support of our BAME staff as a consequence of the global 'black lives matter' movement. As a consequence we have enabled conversations across the organisation entitled 'lets talk race' in order to support individual and organisational learning and development.

The Corporate Management Team have also commissioned a review of the Inclusion and Diversity Strategy and Action Plan, both of which are on-going.

- 3.5.16 Inclusion and Diversity activity is now overseen by the Assistant Director HR +OD.

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

- 3.6.1 The County Council's Corporate Strategy is underpinned by the Corporate Performance Management Framework, which establishes how the quality of services for users is to be measured and reviewed on a regular basis. This includes quarterly reporting of progress against the *Serving Hampshire* Strategic Plan. The County Council's Annual Performance Report is published on the County Council's website and includes a summary of key areas of performance, including an analysis of any major performance risks and mitigations, as well as providing an overview of sources of external validation and customer feedback. The Corporate Performance Management Framework is currently being revised, and will be published alongside the new Strategic Plan, following the May 2021 election.
- 3.6.2 The County Council has in place a revised Risk Management Strategy, with oversight of arrangements provided by the Risk Management Board and regular reporting of the Corporate Strategic Risk Register to CMT. The Audit Committee is responsible for considering the effect of the County Council's risk management arrangements and reviewing the Corporate Risk register.
- 3.6.3 A comprehensive Information Governance Framework is in place, overseen by the Data Protection Officer, with further oversight by the Risk Management Board, chaired by the Senior Information Risk Officer.
- 3.6.4 The County Council regularly monitors its IT systems in the context of cyber security and in recognition of the ever-changing risks in this area, additional investment has been agreed to strengthen and improve our cyber security arrangements going forward.
- 3.6.5 The Audit Plan 2020-21 was developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council's key risks and objectives, this includes a periodic review of the County Council's risk management processes.
- 3.6.6 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.
- 3.6.7 The internal audit plan incorporates provision for both proactive and reactive counter fraud and corruption work, which is underpinned by an embedded Anti-Fraud & Corruption Strategy and Policy and Anti Bribery Act Policy.
- 3.6.8 The delivery of the internal audit plan enables the Chief Internal Auditor to provide an annual report providing an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control which is reported to Senior Management and the Audit Committee.
- 3.6.9 The County Council's Audit Committee is well established and reports to Full Council. Members of the Audit Committee have no executive responsibility for the management of the organisation, thus ensuring that they are sufficiently independent to scrutinise and challenge matters brought to their

attention.

- 3.6.10 The Audit Committee has a clear 'Terms of Reference' providing an effective source of scrutiny, challenge and assurance regarding the arrangements for managing risk and maintaining an effective control environment.
- 3.6.11 The County Council has a well-developed and effective scrutiny function, the structure of which is formalised through the County Council's Constitution. A pre-scrutiny approach enables Members to be engaged early in the process to ensure they can robustly challenge the Council's decision-making, to participate in policy review and development, and monitor the performance of the County Council as a whole. Given the events of the last 12 months, the Policy and Resources Overview and Select Committee has considered the financial impact of Covid-19 on the Council and economic recovery measures. The scrutiny function is supported by experienced officers in Democratic and Member Services.
- 3.6.12 The County Council has strong financial management arrangements at both the strategic and operational level and consistently obtains unqualified opinions for its annual accounts and value for money assessment. The Section 151 Officer is a member of the Corporate Management team and all formal financial decision making has the benefit of the advice and review of the Chief Financial Officer or her representative.
- 3.6.13 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.
- 3.6.14 Financial management in key risk areas across the County Council focusses on activity and performance management alongside the budget management processes and the financial management framework throughout all tiers of the organisation is appropriately advised and supported by the Finance Department, with a particular focus on the change management programmes that have been a feature of Departmental activity for many years. A framework for the roles and responsibilities of budget holders and their interaction with the Finance Department has been rolled out across non-social care departments and are proving effective in improving the financial accountability and expectations of budget managers. This programme will continue over the next year within the social care departments.
- 3.6.15 Following the outbreak of Covid-19, the County Council has been closely monitoring all aspects of the financial impact of the crisis. Weekly monitoring reports to the Corporate Management Team / Gold Command Group were produced initially and concentrated on the impacts in 5 main areas :
- Direct response costs
 - Market underwriting
 - Increased demand directly from Covid-19
 - Losses of funding sources or income
 - Other issues including impact on savings programmes

- 3.6.16 This reporting developed as the pandemic progressed and settled into appropriate reporting through to the Corporate Management Team and on to Cabinet at regular intervals mainly to coincide with the monthly reporting to MHCLG.
- 3.6.17 This monthly reporting has been vital to ensure that Government understands the full financial consequences of the crisis both now and moving forward and has been key in attracting significant funding from the Government to support the costs of the pandemic. Financial resilience within the County Council has remained strong, and a plan is in place to meet the medium term costs and losses of Covid-19 without impacting on the wider financial strategy, albeit the County Council will continue to press the Government to underwrite the full financial consequences of the crisis.
- 3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.**
- 3.7.1 The report writing guide, protocols and templates referred to in the Code of Corporate Governance and the involvement of senior departmental officers, legal officers and finance officers ensures that public reports are written in a clear and accessible way with sufficient information to enable members of the public to formulate informed opinions on the matters for decision.
- 3.7.2 The Corporate Performance Management Framework provides a transparent cycle of reporting on core performance metrics to the Corporate Management Team and Cabinet. Performance information is published online and is easily accessible to staff, partners and the public.
- 3.7.3 The 'Internal Audit Charter' is presented annually for approval by the Audit Committee. The Charter makes provision that 'Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (i.e. the Audit Committee).'
- 3.7.4 The on-going work of internal audit is presented through a quarterly progress report to Audit Committee providing an overview of service performance; delivery against the plan; and progress made by the organisation in the implementation of management actions agreed to mitigate risks identified through internal audit work.
- 3.7.5 Representatives of External Audit routinely attend Audit Committee meetings and present all External Audit reports. Any recommendations for corrective action detailed within External Audit reports are highlighted to Members who will track through to implementation. This is achieved through the clear and concise nature of the minutes to each meeting couple with the inclusion of any overdue recommendations within the internal audit progress report.
- 3.7.6 The internal audit plan includes provision to review the County Council's approach to governance, risk and controls for partnership working. Such reviews are formally reported through the Audit Committee with any significant issues highlighted accordingly.

3.7.7 Where appropriate internal audit will gain assurances from third parties to contribute to their overall assurance opinion.

3.7.8 Financial reporting complies with relevant statute, codes and good practice guidance and financial and performance information are reported consistently throughout the year alongside each other. Where relevant and appropriate performance comparisons are made to other organisations.

4 Obtain assurances on the effectiveness of key controls

4.1 Appropriate assurance statements are received from designated internal and external assurance providers.

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

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

4.4 External sources of assurance include the annual opinion and value for money conclusion by external auditors, and statutory inspections of adults' social care services, and children's services. These reports are subject to consideration by senior management and Members of the County Council, and appropriate response to any recommendations for improvements are agreed. These reports and responses are normally approved in public and published.

4.5 External sources of validation are being increasingly used to inform assessment of the organisation's performance as a core part of the Corporate Performance Framework.

5 Evaluate assurances and identify gaps in control/assurance

5.1 The County Council has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify weaknesses in controls.

5.2 The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the officers within the County Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

- 5.3 The Head of Law and Governance and the Chief Internal Auditor have evaluated the reports from the internal and external assurance providers which have also been reported to the Audit Committee. This Annual Governance Statement sets out the County Council's arrangements for receiving reports and identifying weaknesses in Internal control.
- 5.4 One of the key elements of the Corporate Governance regime and the production of the Annual Governance Statement is the methodology applied to obtain the necessary assurance. This has included:
- a self-assessment assurance statement being completed every year by all Chief Officers giving assurance about the governance arrangements in their Departments.
 - consultation with other relevant officers throughout the County Council.
- 5.5 In line with the Internal Audit Charter approved by the Audit Committee in July 2020 and which is available on the County Council's website, the key elements of the Corporate Governance framework are risk assessed and reviewed periodically by Internal Audit.
- 5.6 The assurance statements cover a range of Corporate Governance and performance issues and they refer to the existence, knowledge and application within departments of governance policies generally.
- 5.7 The Internal Audit Team's work forms the basis of a report to the relevant Chief Officer or Key Corporate Manager for any follow up work necessary, and feeds into this Annual Governance Statement.
- 5.8 Departmental Corporate Governance assurance statements were sent out to Departments in early 2020.
- 6 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance.**
- 6.1 Whilst no specific weaknesses have been identified, additional investment in the County Council's cyber security arrangements will be implemented during 2021.
- 6.2 Further work will be undertaken to consolidate the considerable improvements made to the County Councils Risk Management Framework.
- 6.3 The County Council will publish a new Strategic Plan, setting out its strategic priorities for the period 2021-2025. Alongside this, the current Performance Management Framework will be reviewed and updated.
- 6.4 The County Council will attain assurance of the effectiveness of the governance framework and embeddedness of processes following the agreement of the 2020-22 Risk Management Strategy.
- 6.5 A two-phase corporate approach to Contract Management training has been identified. This is designed for non-professional Contract Managers as a prerequisite to acquiring contract management responsibilities, in order to

ensure consistency of approach. In the first phase an online training module will be launched to provide Managers with an overview of the fundamentals of managing contracts and outline their responsibilities. The second phase an assurance framework and checklist will be developed in to help departments to understand if their contracts are being managed effectively and thereby delivering their intended outcomes. The combination of these two phases will ensure that there is effective, compliant and proactive management of contracts within Departments.

- 6.6 As part of the Care Director implementation Programme, and Care Director Data Management Strategy specifically, work will continue to improve the quality of data in AIS. This includes encouraging practitioners to take every opportunity to improve data quality during interactions with the client. Each client interaction provides an opportunity to ensure key details, such as name, address, DOB, are in place. This is being monitored via the Practice Network led by the Principal Social Worker and managed through the Care Director Programme.

Again, as part of the Care Director project, work is underway to develop new, agreed processes to ensure that data within the new system will be kept 'clean'. This work is ongoing and overseen through project governance.

CareDirector is due to go Live July 2022.

Records Management will continue to own the maintenance of records and performance is monitored through agreed KPIs.

- 7 There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored.**

In response to the Action Plan identified in the 2019/20 Annual Governance Statement: -

- 7.1 A comprehensive review of the County Council's Risk Management Strategy and processes was undertaken, with the production of renewed Risk registers at departmental and Corporate levels, the approval of a new risk Management Strategy, supported by a suite of supporting documents and a robust monitoring and reporting framework.
- 7.2 The EIA guidance has been updated and a new tool is currently being developed following the approval of the Inclusion, Diversity and Wellbeing Steering Group. The new tool will be implemented in May 2021.
- 7.3 The inclusion survey was not undertaken due to COVID-19, however two separate surveys in relation to supporting staff through COVID-19 were deployed and analysis considered from a variety of demographics. In addition to this monthly pulse surveys are also being undertaken and the Inclusion Survey has been delivered in May 2021. .

- 7.4 The improvements to the County Council's insurance arrangements in the review undertaken in 2018/19 were implemented. The actuarial review of the County Council's self-insurance fund was deferred from 2020 and has now been scheduled for the summer 2021 and expanded to include a Risk Finance Optimisation evaluation.
- 7.5 Completeness and timeliness of recording on the Adults Health and Care Client information System remained a key focus of the department throughout 20/21. There have been ongoing team communications reinforcing the message via a number of channels including the Operational Managers meetings. The department now has access to mobile offline forms and has fully embedded the use of mobile field devices, all staff now have devices and remote working has become even more critical during the COVID19 pandemic. The Social Care Practice Manual offline version still remains a technical challenge however SharePoint and Office365 is well embedded in the department.
- 7.6 Amendments were agreed to Standing Orders in accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 to facilitate remote decision making. Meeting of all Council decision making bodies including the Full Council, Cabinet, scrutiny committees and non-executive committees all took place successfully in accordance with the Regulations.
- 7.7 The County Council Anti-Fraud & Corruption Strategy and related documents were reviews and approved by the Audit Committee and responsibility for the policy was assigned to Finance.

Declaration

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

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

Signed:

Signed:

Chief Executive

Leader of the Council

Date:

Date:

Schedule-Covid 19 Update Reports

[Report to Cabinet 16 March 2021](#)

[Report to Cabinet 9 February 2021](#)

[Report to Cabinet 24 November 2020](#)

[Report to Cabinet 29 September 2020](#)

[Report to Cabinet 14 July 2020](#)

[Report to Cabinet 15 May 2020](#)

HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee:	Audit Committee
Date:	29 September 2021
Title:	Appointment of Returning Officer
Report From:	The Chief Executive

Contact name: David Kelly

Tel: 0370 7791283

Email: David.kelly@hants.gov.uk

Purpose of this Report

1. The purpose of this Report is to confirm the appointment of the Chief Executive, Carolyn Williamson as the County Council's Returning Officer.

Recommendation

2. That the Chief Executive of the County Council be appointed as County Council Returning Officer and that the appointment of Carolyn Williamson in this regard be confirmed.

Executive Summary

3. The legislative framework governing the conduct of Local Government Elections is set out in the Representation of the People Act 1983 ('the 1983 Act'). By virtue of Section 35 of the 1983 Act the County Council is required to appoint a Returning Officer for the election of Councillors of the County Council. By virtue of Part 1, Chapter 7, Paragraph 7.3.4 this function is delegated to the Audit Committee.

Contextual information

4. The established procedure within the County Council is that the Chief Executive of the County Council acts as the County Council Returning Officer. Following the retirement of John Coughlan and the appointment of Carolyn Williamson as Chief Executive it is therefore necessary to confirm the appointment of Carolyn Williamson as Returning Officer.

5. The County Council indemnifies its officers against any damages or costs which they may have been ordered to pay, or legal expenses incurred by them, arising from duties performed by virtue of their being employed by the Council provided that they acted in good faith, honestly believing that they were acting within their power and that their duty required or entitled them to do it. This indemnity applies to the Chief Executive of the County Council in her role as the County Council Returning Officer.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: The County Council is required to appoint a Returning officer

Other Significant Links

Direct links to specific legislation or Government Directives

<u>Title</u>	<u>Date</u>
Representation of the People Act	1983

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 disproportionately low.

2. Equalities Impact Assessment:

No equality impacts have been identified in relation to this Report

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Audit Committee
Date:	29 September 2021
Title:	Minutes of the Hampshire Pension Fund Panel and Board – 26 March 2021 (less exempt)
Report From:	Chief Executive

Contact name: Caroline Roser

Tel: 0370 779 5280

Email: caroline.rosier@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to present the non-exempt minutes from the meetings of the Hampshire Pension Fund Panel and Board which took place on 26 March 2021.

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 disproportionately 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 virtually on Friday, 26th March, 2021

Chairman:

*Councillor M. Kemp-Gee

Vice-Chairman:

* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* C. Carter
* A. Dowden
* A. Gibson
* B. Tennent

* A. Joy
* P. Latham
* J. Glen

Employer Representatives (Co-opted members):

* Councillor C. Corkery (Portsmouth City Council)
* Councillor P. Taylor (District Councils - Rushmoor Borough Council)
* Dr L Bartle (University of Portsmouth)
Councillor S. Barnes-Andrews (Southampton City Council, substitute employer representative)

Scheme Member Representatives (Co-opted members):

* Dr C. Allen (pensioners' representative)
* Mr N. Wood (scheme members representative)
* Ms L. Gowland (deferred members' representative)
* Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

* C. Dobson

*present

BROADCASTING ANNOUNCEMENT

The Chairman asked for the broadcast of the meeting to begin. Those remaining at the meeting were consenting to being filmed and recorded.

316. APOLOGIES FOR ABSENCE

Cllr Barnes-Andrews sent his apologies.

Cllrs Carter and Taylor had to leave the meeting after item 13.

317. **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.

Carolan Dobson reminded the committee that she is a member of the board of Aberdeen Standard Fund Managers, in relation to Aberdeen Standard's presentation to this meeting, although her role on the Board does not cover the investment manager's institutional products.

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

The minutes of the Pension Fund Panel and Board held on 12 February 2021 were confirmed.

319. **DEPUTATIONS**

None.

320. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman remarked that this was the final meeting of the Pension Fund Panel and Board in the Council's 4 year term, prior to the local elections in May. The Chairman highlighted the following key events in the committee's 4 year term:

- *The ACCESS pool was only getting going 4 years ago, and now has pooled over half of the combined £55bn of assets under management. It has been a very positive experience working with the other 10 authorities in ACCESS.*
- *This 4 year term has seen considerable developments in the Pension Fund's approach to Responsible Investment (RI). Whilst the changes may not have yet gone far enough for some, the Chairman was confident that Hampshire was taking a reasonable and professional approach for managing a large pension fund.*
- *Significantly and for the first time, the Pension Fund has moved into a funding surplus during this period. Whilst there is still much work to be done the Pension Fund's investment strategy places it in a strong position.*

The Chairman thanked the officers of the Pension Fund, led by the Deputy Chief

Executive and Director of Corporate Resources, who have seamlessly continued to manage the Pension Fund, making good decisions and in particular continuing to pay its pensioners, throughout the pandemic.

Finally the Chairman thanked the Panel and Board Members for their participation and continued dedication to training, as well as the Audit Committee for their support and in particular the late Cllr Evans. It was highlighted that this was the final meeting for a number of members who were not re-standing at the forthcoming local elections and individual members reflected positively on their experiences of serving on the Pension Fund Panel and Board.

321. MINUTES OF THE PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE ON 5 MARCH 2021

The minutes of the RI sub-committee meeting held on 5 March 2021 were received.

322. MINUTES OF THE ACCESS JOINT COMMITTEE ON 13 JANUARY 2021

The minutes of the ACCESS Joint Committee meeting held on 13 January 2021 were received.

323. GOVERNANCE: DRAFT POLICY ON EMPLOYER FLEXIBILITY REGULATIONS

The Panel and Board received a report of the Deputy Chief Executive and Director of Corporate Resources (item 8 in the Minute Book) providing the Pension Fund Panel and Board with information about the changes to the LGPS Regulations which allow greater flexibility for employers who are likely to exit the Fund. In September 2020, the LGPS 2013 Regulations were amended to allow for greater flexibilities for employers who were likely to exit from the Fund. These new regulations provide for:

- a review of employer contributions between Fund valuations
- the spreading of exit payments
- allowing employers to continue to pay contributions after their last active member has left, and for those contributions to be revised at future valuations (known as Deferred Debt Agreements).

The regulations state that Funds can only make use of these new flexibilities if the Fund's policy is documented in the Funding Strategy Statement (FSS). Accordingly the FSS has been updated with a draft policy on the three new powers. The policy is deliberately written to allow each case to be considered on its own merits but the process is described to allow for transparency. The overriding principle of the policy is to ensure that the Fund only agrees to the use of these new provisions if it is in the interests of the Fund as a whole.

The policy has been drafted with significant input from the Fund actuary and in accordance with both the statutory guidance from MHCLG and the further guidance from the Scheme Advisory Board on the use of these provisions. In

making these changes to the FSS, the opportunity to update the format of the document has been taken.

It was proposed that, subject to the Panel and Board's approval, scheme employers will be consulted on the draft employer flexibilities policy contained within the FSS, as well as the amended Administration Strategy. It is anticipated that the consultation will run for 8 weeks from 29 March until 21 May. The Panel and Board were asked to delegate authority to the Deputy Chief Executive and Director of Corporate Resources to approve the final versions of the FSS and Administration Strategy following the close of the consultation period. However, if the statements require material changes following the employer feedback, these would instead be brought back to the Panel and Board for approval.

RESOLVED:

The Panel and Board:

- (a) Agreed in principle to allow the use of the employer flexibilities regulations.
- (b) Approved the draft FSS and Administration Strategy for consultation with Scheme Employers
- (c) Agreed to delegate authority to the Deputy Chief Executive and Director of Corporate Resources for approval of the statements following the end of the consultation period.

324. GOVERNANCE: PENSION FUND PANEL AND BOARD MEETINGS

The Panel and Board received a report of the Deputy Chief Executive and Director of Corporate Resources (item 9 in the Minute Book) on changes to the calendar of meetings for the Panel and Board, starting from the 2021/22 municipal year. The Deputy Chief Executive and Director of Corporate Resources highlighted that the Pension Fund Panel and Board has met seven times a year but there continues to be a pressure from the number of items on some agendas, including hearing presentations from its investment managers.

Starting for the 2021/22 municipal year it is intended that Panel and Board meetings should specifically focus on reports on the necessary governance and investment issues required for the management of the Pension Fund. The number of Panel and Board meetings will therefore reduce to four per year, once a quarter. To enable the Panel and Board to fulfil their role of scrutinising the Pension Fund's investment managers, specific briefings will be arranged for Members to hear presentations and receive training from investment managers. There will be a programme of six to seven briefings a year for Members to see the Pension Fund's full roster of investment managers. It is intended that Members' briefings with investment managers will continue to be virtual. This will reduce travelling for both Members and the Fund's investment managers, many of whom are not based in the UK.

Following questions and comments from a number of the Members on whether there would be any implications on the level of transparency or the ability for engagement from scheme members following the change in meetings, Cllr Kemp-Gee proposed an additional recommendation, that was seconded, that a

paper is brought back to the Panel and Board reviewing the effectiveness of the new meeting cycle after it has been in operation for a year.

RESOLVED:

(a) That the Panel and Board note the changes to Panel and Board meetings starting for the 2021/22 municipal year.

(b) That a paper is brought back to the Panel and Board reviewing the effectiveness of the new meeting cycle after it has been in operation for a year

(c) That the Panel and Board recommends to County Council that its Terms of Reference are amended as shown in Annex 1, and approves that corresponding changes are made to the Pension Fund's Representation Policy.

325. 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 Paragraph 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

Following the resolution the Chairman asked for the broadcasting of the meeting to end.

326. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 12 February 2021 were confirmed.

327. EXEMPT MINUTES OF THE PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE ON 5 MARCH 2021

The exempt minutes of the RI sub-committee meeting held on 5 March 2021 were received.

328. INVESTMENTS: HAMPSHIRE PENSION FUND CUSTODIAN PERFORMANCE REPORT

The Panel and Board received an exempt report from the Deputy Chief Executive and Director of Corporate Resources (Item 13 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's custodian. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

329. INVESTMENT: ACADIAN'S MANAGED VOLATILITY PORTFOLIO

The Panel and Board received an exempt report from the Deputy Chief Executive and Director of Corporate Resources (Item 14 in the Minute Book) on Acadian's Managed Volatility portfolio. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

330. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE

The Panel and Board received an exempt report from the Deputy Chief Executive and Director of Corporate Resources (Item 15 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's alternative investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

Chairman,

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

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